



EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

No.30,616

Monday August 15 1988

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## AFGHANISTAN

### Refugees prepare to return home

Page 14

Algeria	52.22	Indonesia	89.70	Portugal	52.20
Bahrain	104.50	Ireland	153.50	S. Arabia	82.70
Bangkok	87.40	Italy	117.00	Spain	32.10
Beijing	151.00	Japan	169.00	Switzerland	151.45
Bombay	100.00	South Korea	117.50	Taiwan	117.50
Buenos Aires	100.00	Thailand	117.50	USA	100.00
Calcutta	100.00	UK	100.00		
Cairo	100.00				
Colon	100.00				
Hong Kong	100.00				
London	100.00				
Manila	100.00				
Moscow	100.00				
New York	100.00				
Osaka	100.00				
Paris	100.00				
Rangoon	100.00				
Singapore	100.00				
Tokyo	100.00				
Yokohama	100.00				

### World News

## Moscow says half troops have left Afghanistan

The Soviet Union said it had completed the withdrawal of half its 100,000 troops from Afghanistan, a day ahead of the deadline set in the Geneva Accords. The Afghan army is struggling to keep control of areas evacuated by Soviet forces.

Rebel shelling killed 14 people in the towns of Gardiz and Khost. Page 14

**Gaza Strip curfew**  
Israeli troops wounded at least 10 demonstrators and imposed a curfew confining most of the 650,000 Palestinians in the Gaza Strip to their homes, as protests and a general strike marked the Islamic new year.

**India border clash**  
Indian border guards shot and killed 11 Pakistanis after they attempted to cross the land border in the Jammu and Kashmir state.

**Solidarity clash**  
Polish police clashed with supporters of Solidarity in Gdansk after economists marking the anniversary of strikes which launched the now-untold independent trade union.

**Uneasy Burma calm**  
Burmese cities were reported to be calm after the stepping down of President Sein Lwin on Friday. Further anti-government protests may be delayed until after a new head of state is named on Friday. Page 14

**Belgrade's new bills**  
Rapid inflation prompted Yugoslavia to announce a new 50,000 dinar (\$17.80) banknote, replacing 20,000 dinars as the largest denomination note. Security clampdown. Page 2

**Clashes in Egypt**  
Egyptian police detained 185 people in weekend clashes with Muslim militants in which five people were killed and at least 20 injured.

**Paraguay investiture**  
Paraguayan President Alfredo Stroessner begins his eighth consecutive term in office today, having held unchallenged power for 34 years.

**Palme hunts poll**  
A Swedish public opinion poll suggests the ruling Social Democrats could lose next month's general election because of their handling of the hunt for the killer of Prime Minister Olof Palme. Page 2

**Manila hostages free**  
Communist rebels freed five Philippine soldiers unharmed after holding them in a mountain hideout for 74 days.

**Angola rebel claims**  
Angola's UNITA rebels said they killed 21 government troops and nine Cuban soldiers in ambushes last week, the first of a ceasefire negotiated by the Angolan, South African and Cuban authorities.

**Sudan flood relief**  
King Fahd of Saudi Arabia donated \$8m from his personal funds to help flood victims in Sudan. Aid appeal. Page 2

**Taipei 'no' to Peking**  
Taiwan turned aside an indirect offer from Peking for talks on the formation of a coalition government that would include Taipei's ruling Nationalist Party. Page 3

**Contra border clash**  
One rebel was killed and two others arrested when about 30 Contras clashed with Costa Rican national guardsmen near the Nicaraguan border.

**Hassan backs poll**  
King Hassan of Morocco, considering new proposals to resolve the Western Sahara dispute, said that a UN-sponsored referendum was the only way to resolve the 12-year-old conflict.

**Missing motors**  
A census of the 7,551 Uganda government cars imported since 1982 found that 5,074 were stolen or written off and only 1,483 of the other 2,477 were still in working order.

### Business Summary

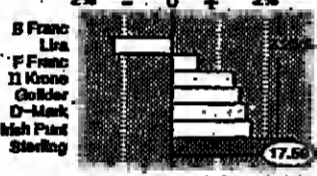
## London SE investigates new insider trading fears

LONDON Stock Exchange is investigating a new insider trading scandal following the dismissal of two employees at leading City merchant banks and the resignation of a third last Friday. The three employees are alleged to have passed on or used information about Heston Leisure's £500m takeover bid for Plessum before it was announced on August 4. Page 14

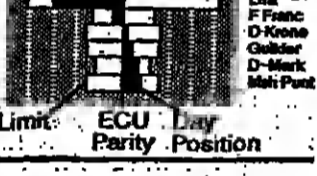
**ROLLS-ROYCE** has disclosed that it owns the patents on the Heston concept of a re-usable air-breathing engine for space flight. Page 4

**EUROPEAN Monetary System:** The French franc was the subject of attention last week, as it weakened against a generally improving D-Mark. The French Finance Ministry did little to favour by claiming there was no need to change monetary policy, at a time when interest rates elsewhere were rising. The franc weakened within the EMS, while the D-Mark threatened to become the strongest member of the system.

**EMS**  
August 12, 1988  
Gold 2% - 0 + 2%



**ECU Divergence**  
5% - 0 + 5%



**Limit ECU Day Parity Position**

The chart shows the two components of the European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2% per cent. The lower chart gives each currency's divergence from the central reference rate of the European Currency Unit (ECU), a basket of European currencies.

**AEROLINEAS** Argentina's president, Horacio Domingorena, condemned the Argentine Government's agreement to sell 40 per cent of the state-owned carrier to Scandinavian Airlines System saying the arrangement "prostituted the principle of privatisation". Page 15

**THIS WEEK:** Figures published tomorrow are set to be the focus of attention in world financial markets this week and could determine the short-term course of the dollar. Financial markets will take note July's US industrial production figures due today. Page 15

**HONG KONG:** Association of Banks decided at the weekend to raise the local prime lending rate by half a percentage point to 9.5 per cent, effective today. Page 3

**WALL STREET** is bracing itself for further increases in interest rates, believing last week's discount rate increase will prove inadequate for the task of cooling down the US economy. Page 16

**AMERICAN STORES** has sold for \$80m the Florida division of Lucky Stores, two months after its \$2.5bn purchase of Lucky made it the largest US supermarket chain. Page 16

**CANADIAN TIRE:** Speculation is rising of a bid potentially worth \$2bn (US\$1.5bn) for the diversified retailing group, opening a new chapter in the two-year-old contest for control. Page 18

**MITSUBISHI Petrochemical,** largest Japanese petrochemical group, reported that unconsolidated net earnings in first half of 1988 surged 138.7 per cent to ¥9,168bn (\$40.2m). Page 18

**PARMALAT food empire** looks set for an important restructuring next month after long negotiations with Kraft, US foods manufacturer. Page 18

**EUROPEAN VINYLs,** joint venture between ENI, the Italian state energy group, and ICI, the UK, is to buy three European PVC businesses for an undisclosed sum. Page 18

## Mandela's lung complaint improves in hospital

By Michael Holman, Africa Editor, in London

MR NELSON MANDELA, the jailed leader of the African National Congress, who was admitted to hospital with a lung complaint on Friday night, "has shown a noticeable improvement", a doctor said yesterday.

Dr J.G. Strauss, the medical superintendent at Tygerberg Hospital, where Mr Mandela has been treated since his transfer from Cape Town's

Pollsmoor prison, said that an examination of tissue from Mr Mandela's lungs showed no evidence of malignancy, "only a chronic inflammatory condition of the pleura (the lung lining)".

This condition could indicate tuberculosis, said another doctor. Mr Mandela was "without pain or discomfort," added Dr Strauss.

Mrs Winnie Mandela visited her husband for 40 minutes on Saturday. "Winnie was shocked... but I don't know what shocked her," said the family lawyer, Mr Ismail Ayob.

He said the South African Government might release the 70-year-old Mr Mandela on compassionate grounds were immediately dampened, however, by Mr P.W. Botha, the Foreign Minister.

Speaking on Saturday in Vienna, where he had been holding talks with US, Soviet and British officials on the possibility that Pretoria might sign the 1970 nuclear non-proliferation treaty, Mr Botha said he had yet to see the medical reports.

But asked whether the Government would consider releasing the ANC leader on compassionate grounds, he replied: "Should you release any per-

son... with that background, and that person is not prepared to abandon violence?"

Mr Mandela was jailed for life in 1964 on charges of sabotage and planning the overthrow of the white government.

His release could provoke killing, Mr Botha continued, and if that led to a rearest "where does that take you?"

## Bush campaign seeks vital spark from Reagan's last hurrah

Lionel Barber in New Orleans

VICE-PRESIDENT George Bush is looking to the huge popular appeal of President Ronald Reagan, billed as the star attraction at today's opening of the Republican national convention, to give his presidential campaign the spark it has so far lacked.

During four days of carefully choreographed events and speeches, Mr Bush, who still trails in the polls, will be endorsed as the Republican nominee to challenge Governor Michael Dukakis of Massachusetts in the November election.

Tonight, in what is certain to be an emotional and festive occasion, Mr Reagan, 77, will deliver a last hurrah to more than 3,000 delegates gathered in the giant Superdome football stadium, the site of the convention.

Mr Bush's task is to convince sceptical delegates and a watching American public that he is a worthy successor to the outgoing President.

Doubts remain about Mr Bush's ability to maintain the broad-based Reagan coalition, which led to two Republican landslide victories in 1980 and 1984. These doubts grew over the weekend when it became



George Bush: Facing dilemma over his running mate

clear that the Bush campaign had caved in to conservative activists on several key policy issues.

The Republican Party platform includes a call for a constitutional amendment to ban abortion under any circumstances, including rape or incest. This plank will hurt Mr Bush's attempt to improve his

already poor standing with women voters.

Other conservative planks included a commitment to rapid deployment of the SDI "Star Wars" anti-missile system, and a refusal to endorse the equal rights amendment for women or non-discrimination against AIDS victims.

Mr Bush had earlier called for specific language in the Republican platform because he wanted to set out differences with the Democrats, who last month approved a very general platform. This tactic may have backfired because it allowed conservatives leverage on social issues, where Mr Bush has sought to steer a middle course.

Conservative forces have also pressured Mr Bush on the selection of a running-mate. But, with the vast majority of delegates under their control, the Bush campaign is determined to remain independent.

The Vice-President has a short-list with the front runners believed to be Senator Robert Dole of Kansas, Senator Alan Simpson of Wyoming, Congressman Jack Kemp of

Continued on Page 14  
Footprints in the sand, Page 12

## Soviet officials dig in to preserve their privileges

By John Lloyd in Moscow

THERE IS A bad situation in Krasnoyarsk. The trade promotion enterprise will not come in its cars. Its Volvo pride of the fleet is used by its white-collar workers for joy-riding. Its two Zhigulis are in another town.

The bread production plant is smarter. It has got its fleet off the books: but only by transferring the cars to its subsidiaries. This is not perestroika, Comrades.

No, it is privilege digging in. In February this year, the Council of Ministers ordained that the tens of thousands of

cars at the disposal of soviet managers and officials should be cut by between 20 and 40 per cent. Some organisations - such as ministries, institutes, soviets - were given targets and told to fulfil them by July 1.

Others, such as plants and agri-combines, were told that their cost would come out of the social fund, used to build flats, nurseries and clinics.

Yesterday the newspaper Socialist Industry published an investigation of how the company car was going. For the most part, the answer is: it

still is.

Krasnoyarsk is among the worst. Of its 500 official cars only 13 have found their way to the commission shops which market them.

Rostov is little better. It was supposed to lose 130 of its 407 chauffeur-driven perks, and has sold off only 22. The militia stepped in to unscrew the number plates from 57 cars, thus rendering them unlawful.

In Moscow, matters are different: the ministers can look out of the window and check on the diminishing ranks in the car parks.

## Irish test for UK regulations

By Richard Waters in London

FINANCIAL SERVICES regulators may be unable to prevent unauthorised overseas companies selling to UK investors.

Until this weakness in the regime is tackled, investment firms which fail to gain authorisation to operate in the UK will be able to sidestep the regulations by moving their operations out of the country.

Vandersteen Associates, a futures and commodities firm based in Cork, Republic of Ireland, last week provided one of the first tests of the regulators' powers in this area when it sent marketing brochures to 5,000 prospective UK clients.

According to a Cork-based employee, Vandersteen's computer-based trading system "has been producing some incredible results" over the

past five years.

The Securities and Investments Board, the UK's chief investment regulator, said: "If they are direct mailing people here, they are marketing in the UK, which is an authorisable activity. There's no doubt, in that case, that they are breaking the rules. The difficulty comes on the enforcement angle."

The only sanction available to the SIB is to reprimand the firm publicly - an exercise of limited value.

The SIB is nearing mutual assistance agreements with regulators in four countries, and plans a further 38 similar bilateral treaties. But these are likely to be of use only if the firm concerned has broken the

investment rules of its host nation, which are virtually certain to be less severe than the UK's all-embracing Financial Services Act.

UK firms refused authorisation to carry on investment business are likely to move their operations abroad.

The problem is not new. Barlow Clowes International, the offshore arm of the Barlow Clowes group, advertised in a UK national newspaper, even though it was not authorised by the Department of Trade and Industry to carry on business in the UK.

There is one hidden sanction against firms operating outside the scope of the Financial Services Act: any contracts they enter into will be unenforceable.

## Burma riots may continue despite Sein Lwin's exit

By Richard Gourlay in Bangkok

BURMESE protesters have called for more country-wide demonstrations if their demands for democracy to replace the one-party socialism of the past 25 years, are not met.

But some of the demonstrators - largely students - seemed prepared to postpone further disturbances until next Friday when the executive committee of the Burma Socialist Programme Party (BSPP) is expected to choose a successor to U Sein Lwin as State President and Chairman of the Party.

U Sein Lwin was forced to resign on Friday after more than five days of bloody clashes between protesters and the army in the capital, Rangoon, and other cities.

It is thought that during the disturbances as many as 1,000 people may have been killed.

Following his departure, tension eased in Rangoon according to diplomats.

Protesters removed barriers and road blocks and bus services started to function again.

However, troops remained on duty in downtown streets near government buildings and the city hall where the shooting started a week ago.

As posters appearing on walls in Rangoon testify, feelings are still running extremely high and violence could easily recur before next Friday.

The posters call for U Sein Lwin to be tried in court for his part in the brutal suppression of riots and for general elections for multi-party democracy within six months.

Other posters demand action against soldiers who opened fire on unarmed crowds at the hospital in Rangoon, killing medical workers, and compensation for riot victims and the release of all political prisoners.

Behind these immediate demands lies a pervasive, if unfocused desire for a new government to begin economic reform.

Rice prices have risen by 400 per cent this year, and the shortages and consequent hunger have been one of the main reasons behind the apparently spontaneous uprising.

At least one main faction of protesters is known to be profoundly sceptical that U Sein Lwin's resignation will bring about a real change in the system of government and the coterie of ageing army officers who run it.

This group has called for a resumption of demonstrations against the Government today.

However, there is a distinct lack of co-ordinated leadership among the protesters, and it remains to be seen whether the sceptics or those who are prepared to wait will prevail.

According to diplomats, U Sein Lwin's resignation leaves the system intact: public pressure is unlikely to ease before something is done to tackle soaring rice prices and food shortages.

Burmese exiles in Bangkok who are in touch with protesters in Rangoon go further. They expect that another army man will be elected by the party as the new leader on August 19.

The exiles say this will be unacceptable to the protesters.

They quoted state-controlled Radio Rangoon, which instead of displaying contrition following the suppression of the riots last week, claimed students were apologising to monks for having demonstrated against the Government.

However, the Burmese exiles said this was unlikely to have happened and said the Government was using propaganda to try to defuse opposition.



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John Hume, leader of Northern Ireland's Social Democratic and Labour party, is more optimistic than ever about the province's future, in spite of an increase in sectarian violence in the past few months. Page 30

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Republican convention: George Bush strives to leave a footprint in the sand. Page 12

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OVERSEAS NEWS

# Thais nurture mix of growth and democracy

Peter Ungphakorn, in Bangkok, reports on the appointment of a new cabinet

THE DISMAY that has greeted Thailand's new Government represents a painful dilemma for both Thais and foreigners who have argued that one of the country's strengths has been its developing democracy.

With one of the fastest economic growth rates in the world, expected to be up to 9 per cent this year, Thailand compares favourably with the newly industrialising countries (NICs) or aspiring NICs among its neighbours, such as the Philippines, Indonesia, Malaysia and even Singapore.



New for old: Prem Tinsulanonda (left) replaced as Prime Minister by Chatichai Choonhavan

Explanations for the economic resilience have usually included reference to Thailand's recently opened-up political system that includes one of the freest presses in Asia, and the tight rein on spending that has kept Thailand away from serious debt problems.

The question now being asked is whether Gen Prem Tinsulanonda, the 69-year-old former Prime Minister, was able to hold the economy and the Government together for eight years precisely because of the least democratic aspects of his Government; his success may have been based on the strength of the economy, the finance ministers and shield them from voters' demands for more spending.

There are also fears that corruption and cronyism, always present but latterly somewhat restrained, could get out of hand. Worries are tempered by the strength of the economy, the Government's healthy financial position and the hope that the new cabinet will appreciate its new responsibilities.

Gen Prem was installed in 1980 almost two years before he retired as army commander and has remained in office without even standing for election. He was able to do that because the military inspired constitution allows cabinet

members to be appointed from outside parliament. Gen Prem put his appointees in the key ministries handling security and economic policy: defence, interior and finance.

Now, for the first time in 12 years, the new 66-year-old Prime Minister, Maj Gen Chatichai Choonhavan, and all but one of his colleagues - the Government's legal expert - are elected MPs. Paradoxically, this seems to be the problem. Gen Prem's reputation for probity imposed some restraint on the greed of his cabinet colleagues, but it also provided a contrast between the cleaner image of his appointees and the scandal-prone MP-ministers many of whom are back in the new cabinet.

Mr Banham Silapa-Archa, Secretary General of Gen Chatichai's Chat Thai party is now industry minister, with a key role to play in energy and large projects such as the petrochemicals complex being built on the eastern seaboard. Even though Chat Thai is usually described as business-oriented,

some sections of the business community are uneasy about the prospects.

In the last cabinet Mr Banham was communications minister and involved in disputes over scrapped contracts with Van Hool, the Belgian bus manufacturer, and Bouygues, the French construction company. His ministry also awarded to a leading party figure a crane monopoly at the port of Bangkok that threatened severe disruption to the flow of trade.

His replacement is Mr Montree Pongpanit, secretary general of the Social Action Party, the second largest after the July 24 general election.

Mr Montree will be responsible for multimillion baht infrastructure projects such as the new deep sea port on the eastern seaboard and Thai International Airlines' purchase of new generation jets.

He spent an eventful two years at the commerce ministry in the last cabinet, amid some controversy over Government rice deals and topica export quotas that were alleged to have favoured certain companies.

Some commentators are willing to give the new Government a chance, Japanese, Taiwanese and other foreign investors who have flocked to Thailand in recent years are said to be waiting to see what happens. But critics point to the scandal-prone figures that remain in the new cabinet, and to the way the portfolios were shared out, as an indication that the politicians are likely to follow their old habits rather than reform.

The appointment of the new finance minister, Mr Pramual Sabhavan, is a case to point. He is another important member of the Chat Thai party and was industry minister before the general election. Reporters covering the best say he had difficulty grasping complex issues.

Some, however, see virtue in his appointment. They place their trust in the senior ministry and central bank officials

and argue that because he is a newcomer to macroeconomic policy, Mr Pramual will be more receptive to the advice he is given.

His first statements suggest he will do just that, perhaps to prove his critics wrong. He has indicated that the basket of currencies used to fix the baht's value is likely to remain, and his comments about avoiding debt suggest any spending increases will be kept under control even though Thailand's rapid economic growth is swelling Government revenue even more rapidly. He also said tentatively that he thought the 50bn per year ceiling on new Government foreign borrowing should stay.

His test will come when his cabinet colleagues seek more funds for their pet projects.

The attitude of the military to all this is unclear. They have their own problems including splits and the adjustment to the shimer and more professional armed forces envisaged by their supreme commander, Gen Chavattai Yongchalyudh, who was also army commander.

Senior officers have pledged their support for Gen Chatichai whose army career ended to conflict 30 years ago. But misbehaviour by the politicians could always provide an excuse for a coup if some faction feels it has sufficient need - and strength - to assert itself. That would not necessarily lead to cleaner government.

Analysts are debating how long the new Government will last. A key period will be next month, when the annual reshuffle of top military officers is due. That is almost routinely a time of tension. The optimists believe that the money in the general election to do anything that would prevent them remaining less than a year.

## Gunfire gives way to birdsong in the Gulf

By Roderick Oram in New York

WITH A WEEK to go until the Iraq-Iran ceasefire officially takes effect, shooting had not quite ceased by Saturday morning when the Iranian authorities took a busload of foreign academics and journalists into the ghost city of Khorramshahr.

Every few minutes a dull clump in the west could be heard, as the two armies continued a desultory exchange of artillery. Fire and our hosts felt our security would be at risk if they took us to the waterfront where the river Karun flows into the disputed Shatt al-Arah waterway and Iraqi territory can be seen only a few hundred yards away.

According to revolutionary guards we spoke to, however, there has been no serious fighting on this front since August 4, when they beat back the last Iraqi thrust on to the Ahwaz-Khorramshahr road at Hossiniyah. As we drove along this road, we were shown burnt-out tanks and armoured personnel carriers, which were

From Khorramshahr, Edward Mortimer reports on Iran's battlefield, a week before the ceasefire

supposed to prove the Iraqis had been forced back, and had not withdrawn voluntarily as they claimed. However, what it proved, if anything, was that the Iraqis had occupied 45km of the road in its last offensive after July 18 and come as close as 40km to Ahwaz, the provincial capital.

Voluntarily or otherwise they have since withdrawn and the front has moved back westward. The road takes on the appearance of a frontline one at the Khorramshahr end, with newly sandbagged positions, many of them occupied by Iranian soldiers; armoured cars are dug into the earthwork that runs along the western edge of the road, their guns pointing westward. Underneath the vehicles the crews have dug shelters and put down carpets, to give themselves some refuge from the blistering August sun. (Temperatures go as high as 46C.)

In Khorramshahr itself, the silence is eerie, broken only by birdsong and distant and intermittent cannon. The town used to be home to at least 200,000 people and has been completely deserted since it was recaptured from the Iraqis in 1982. There is not a single habitable building in it; every house is smashed beyond repair, the contents either removed by the inhabitants when they fled in 1980, looted by the Iraqis or simply destroyed in the 45 days of bitter street fighting which it took the invaders to eliminate Iranian resistance.

Everywhere there are ramparts made mostly of rubble from the shattered buildings - bulldozed deliberately by the Iraqis for that purpose, according to our hosts. Only the central mosque, scene of a famed last stand by 50 or so defenders, has been rebuilt as a symbolic gesture of defiance - only to suffer new damage from the shelling later in the war. Rebuilding the city is one of the many tasks for Iran if the ceasefire leads to a lasting peace, and it will have to start with complete levelling of the site.

At the moment, the defenders of Khorramshahr remain on their guard. Mr Mohammed Hossein Inami - aged 38, a 'basij' (volunteer) - does not expect to go back soon to his pre-revolutionary existence as a bank clerk in Tehran.

"We have to keep to readiness. Our enemy is very devious," he says. Neither he nor his younger comrades express any enthusiasm for the ceasefire.

British envoy sent to Iran to help negotiate the release of three Britons held hostage in Lebanon has had several rounds of talks with Iranian officials in Tehran.

Mr David Reddaway, the British official, described his talks as "useful". He also discussed the fate of Britons held in Iran on spying charges. The official Tehran Times newspaper yesterday said Iran would "spare no effort" to facilitate the release of British hostages.

## Sacked journalist faces US insider trading inquiry

By Roderick Oram in New York

BUSINESS WEEK, the US magazine, has dismissed Mr Rudy Ruderman, a senior journalist, after a probe into his knowledge of company news before it was disclosed in their stock holdings.

McGraw-Hill, Business Week's publisher, and the New York Stock Exchange are also investigating whether Mr Ruderman was involved in insider trading based on advance knowledge of company news mentioned in the magazine's market column.

The magazine's recently uncovered unrelated cases of seven printing employees who profited from the column before it was publicly available.

Mr Ruderman, 62, had been broadcast editor since 1981. Working alongside the magazine's reporters in New York, he made nine 90-second broadcasts a day on radio stations in New York and other cities.

Business Week said there was no evidence that Mr Ruderman used the programme to promote stocks he held.

Mr Robert Landes, McGraw-Hill's general counsel, said the company had been alerted to Mr Ruderman's trading by the New York Stock Exchange. It had been tipped off by a stock broker who said Mr Ruderman bought shares in companies shortly before they were mentioned in the magazine.

## 'Only one reprimand' to follow Iran Air shooting

By Nancy Dunne in Washington

THE PENTAGON yesterday refused to comment on a report that only minor disciplinary action against one US naval officer is being considered after the accidental shooting down of an Iranian Airbus on July 8.

According to The Washington Post yesterday, a navy board has concluded that an operations officer aboard the USS Vincennes bears most of the responsibility for the mistakes which led higher officers to believe that the airliner was an Iranian F-14 fighter.

The board's recommendations are being reviewed by Admiral William Crow Jr, chairman of the Joint Chiefs of Staff, who may order more disciplinary action or less.

Pentagon investigators have found little accuracy in the initial reports about the incident. They have concluded that a series of human errors, rather than equipment failure, led to the faulty identification of the airliner, which carried 290 people to their deaths.

Admiral Crow, who had the job of announcing the accident, said the ship's captain had apparently acted properly. According to the Post, the navy board considered and then rejected recommending action against several high-ranking officers, including Admiral Anthony Less, commander of the Gulf task force.

The board instead recommended a letter of reprimand to the operations officer.

## Vietnam poison suspected of killing admiral's son

By Nancy Dunne

ONE OF the most widely-told American stories of personal anguish from the Vietnam war, ended on Saturday with the death of Mr Elmo Zumwalt III, reportedly as a result of the "Agent Orange" chemical, which his father, an admiral, had sprayed in the Mekong Delta.

The late Mr Zumwalt, commander of a patrol boat, was exposed to the highly toxic dioxin. The Zumwalt family believes this contact caused the lymphoma and Hodgkin's Disease which killed him at 42.

Mr Zumwalt and his father, Elmo Zumwalt Jr, wrote a book about their plight, "My Father, My Son", which was made into a television film. It revealed that Agent Orange may have touched yet another generation of their family: Mr Zumwalt's sister, Elmo Zumwalt IV, suffers from a congenital disability.

Many Vietnam veterans say Agent Orange causes cancer, birth defects, miscarriages and other illnesses.

Mr Zumwalt always defended the admiral's decision to use Agent Orange. American sailors on patrol in Vietnam's rivers and waterways were subject to frequent ambush and the defoliant drove the Viet Cong a thousand yards back from the water's edge.

At the time, Agent Orange was believed to be harmless to human beings. The late Mr Zumwalt at one point swam through water sprayed with the chemical to collect weapons. "He did what he had to do to reduce casualties," Mr Zumwalt said of his father. "I did what I felt I had to do. I volunteered for service in Vietnam because I felt whatever the risks, that was where I belonged."

Admiral Zumwalt, who commanded naval forces in Vietnam from 1969 to 1970, said later he felt no guilt because the use of Agent Orange "saved literally hundreds, maybe thousands, of lives."

## Swedish party loses ground

By Robert Taylor in Stockholm

SWEDEN'S ruling Social Democrats are in danger of losing next month's general election because many of their supporters are disillusioned by a scandal over the Olof Palme murder inquiry, according to an opinion poll.

According to the survey, 15 per cent of those who voted for the party three years ago will not support it on September 18, in protest at the Government's handling of the "Ebbe Carlsson affair", a freelance inquiry sanctioned by ministers into the murder of Mr Palme, the Prime Minister, in 1986.

The survey, conducted by the independent SIFO poll organisation, was published yesterday in the country's leading newspaper, Dagens Nyheter.

If these former Social Democratic voters carry out their voting intentions, the party will remain the biggest in Parliament but will find it almost impossible to form a Government with a stable majority.

Swedish politics have been evenly balanced between the Socialist and non-Socialist blocs for nearly 20 years, so even a slight shift against the Social Democrats could cost them the coming election.

The SIFO poll also reveals that 45 per cent of the voters have less confidence in politicians in general as a result of the Ebbe Carlsson affair, while 10 per cent believe the affair is a more important issue than law and order and 9 per cent, more important than either taxation or environmental issues.

## S Africa 'welcome to sign' nuclear treaty

By Michael Holman

THE HEAD of the International Atomic Energy Agency yesterday welcomed the possibility that South Africa might sign the 1970 nuclear non-proliferation treaty.

Dr Hans Blix, director-general of the agency, was responding to comments by Mr Pik Botha, South African Foreign Minister, after the latter had ended talks in Vienna with British, Soviet and US officials. Mr Botha told journalists he believed Dr Blix "doesn't want us to be part of the agency." He did not say whether South Africa would sign the treaty.

South Africa already allows safeguards inspections on two plants with French and US technology, but does not allow the agency's inspectors access to the Palindaba uranium enrichment plant, which can make material needed for nuclear weapons.

Dr Blix, in a statement issued in response to Mr Botha's remarks, said "I would welcome a South African adherence to the treaty... the agency would administer the safeguards in South Africa in the same way as is done in other countries."

Mr Botha had taken the

opportunity to provide the first official confirmation that South Africa has the capacity to make nuclear weapons, something that has long been assumed.

Satellite surveillance in 1977 disclosed a possible nuclear testing site in the Kalahari Desert, and the US said in 1979 it had detected signs of what might have been a small nuclear explosion in the South Atlantic where a South African naval force was operating.

However, it was not immediately clear why Mr Botha decided to make his disclosure. It coincides with efforts to

negotiate independence for Namibia and the withdrawal of Cuban troops from Angola, so the move may be designed to underline South Africa's status as the regional super-power.

It may also be a response to the decision last week by the US House of Representatives to pass a bill which calls for almost total US trade sanctions against South Africa. What South Africa intends to do, with nuclear weapons, or why disclosure of their possession should make US legislators think again, is unclear. When under pressure, though, Pretoria tends to flex its muscles.

## Belgians agree to cut budget deficit

By Our Foreign Staff

BELGIAN ministers have agreed on the budget for next year.

It includes plans to cut a huge budget deficit to 7 per cent of Gross National Product, from an estimated 8.5 per cent, the government said yesterday. Reuter reports from Brussels.

Experts were combing through the final details before a full cabinet meeting today to approve the package.

Mr Jean-Luc Dehaene, who masterminded the negotiations that set up a new government in May after the previous one collapsed last October, had expected the budget to be a big test for the five-party coalition.

In the event, negotiations which started last Monday were concluded with relative ease, with little of the trouble, analysts said.

Mr Dehaene is now Minister of Communications and Institutional Reforms.

## Sudan seeks more aid for 2m flood victims

By Our Foreign Staff

THE SUDANESE authorities yesterday appealed for more aid to help up to 2m victims of floods which have devastated Khartoum and other centres.

Mr Omer Nour El Din, Finance Minister and head of the government committee which is co-ordinating the relief effort, said yesterday that 58 people had died and 167,000 homes in the Khartoum areas had been washed away.

Government officials denied that aid was being withheld from the half-million refugees from the civil war in southern Sudan, who live in makeshift camps around the capital.

The refugees are mainly Christian or animist, and have been complaining about what they say is the failure of the mainly Muslim Government in Khartoum to provide adequate help.

## Special police to tackle Kosovo unrest

By Judy Dempsey in Ljubljana

YUGOSLAVIA'S federal authorities have given a 300-strong police unit special powers to crack down on ethnic unrest in Kosovo, a southern province where there is chronic tension between the ethnic Albanian majority and local Serbs.

After a wave of ethnic unrest in 1981, triggered by calls from the Albanian population for Kosovo to be given republic status in federated Yugoslavia, thousands of Serbs and Montenegrins have left the region, one of the least developed in Yugoslavia.

The latest action came against a background of rising nationalist sentiment in Yugoslavia's republics, and of proposals for an increase in the power of Serbia proper over the two autonomous provinces in its territory, Kosovo being one.

Under a plan to amend the federal constitution, it is envisaged that police, judicial and several other powers invested in Kosovo and Vojvodina (also a province of Serbia) shall pass to the Serbian Government.

These amendments are supported by Mr Slobodan Milosevic, Serbia's party leader. They are opposed by the two provinces, however, as well as by the republics of Slovenia and Croatia, which say Serbia would gain greater weight and authority in the federal structure, something the late President Tito had tried to avoid.

## Three die in riots by Egyptian extremists

By Our Foreign Staff

EGYPTIAN security authorities have charged 59 people with attempted murder, instigating disturbances and deliberate damage of public property, after Muslim extremist riots over the weekend in which three people were killed and at least 37 injured.

Two youths died in clashes with police on Friday in a Cairo suburb, and a woman died on Saturday. This followed recent unrest at Assiut, in Upper Egypt.

## Eta expected to step up Basque country attacks

By Tom Burns in Madrid

AN INCREASE in agitation is expected in Spain's Basque country over the next fortnight when the main towns in the area stage their annual fiestas.

At the weekend, a spate of bombings constituted the biggest show of force this year by the Basque separatist organisation Eta.

In a carefully co-ordinated action early on Saturday, a string of businesses trading with France were rocked by 11 separate explosions.

Damage was estimated at more than 50m. The timing of the attacks appeared linked to the fiestas that are staged in San Sebastian, Bilbao and other Basque locations in the second half of August, and which have in the past been used by Eta supporters as rallying points for separatist demonstrations.

The bombs wrecked Renault, Peugeot-Talbot and Citroen car showrooms as well as a plant which processes French dairy products.

A railway bridge in La Rioja on the main branch line to Bilbao was also blown up. Yesterday police continued to comb

railway lines in the area and increased security for French-linked companies.

French business interests have been a frequent target for Eta bombers, due to the co-operation by the Paris Government with Spanish police in action against cross-border terrorism.

The attacks were the first serious bombings by Eta since a car bomb last December blew up a police station, killing 11 people.

Subsequently, Eta indicated it was willing to negotiate a ceasefire but in contacts with government officials, the group often refused to open off in March when the separatists kidnapped Mr Emilio Revilla, a financier, in Madrid.

A UN-sponsored referendum was the only way to resolve the conflict over the former Spanish colony of Western Sahara. King Hassan of Morocco told Algerian journalists, Reuter reports from Rabat.

"Only an international referendum, recognised by the UN, under UN control and approved by the UN can lead to a clear... situation," he added.

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**Three die in riots by Egyptian extremists**

EGYPTIAN security authorities have charged 59 people with attempted murder, instigating disturbances and deliberate damage of public property, after Muslim extremist riots over the weekend in which three people were killed and at least 37 injured.

Two youths died in clashes with police on Friday in a Cairo suburb, and a woman died on Saturday. This followed recent unrest at Assiut, in Upper Egypt.

## Bundesbank director 'against rate rise'

By Our Foreign Staff

A BUNDESBANK board member, Mr Günter Storch, has been quoted as saying that he opposes raising the West German central bank's securities repurchase rate if the bank adds liquidity to the money market this week with a new pact. Reuter reports from Bonn.

In an interview with the Frankfurter Neue Presse newspaper, Mr Storch was reported at the weekend as saying that, in his personal opinion, a rise to 4.5 per cent from the current

4.25 per cent was out of the question now.

A Bundesbank spokesman declined to comment on the newspaper article.

The rate has been raised in stages from 3.25 per cent since mid-June to help support the DM10.5bn foreign currency markets.

The Bundesbank's seven-member board usually meets on Tuesdays to settle the terms of securities repurchase pacts, which are offered for about a month and used to regulate money market liquidity and

short-term interest rates.

Mr Storch was also quoted as saying that the Bundesbank had not yet decided whether it would offer a new allocation next week.

No previous repurchase pact will expire until August 24, when a 4 per cent DM10.5bn (55.02bn) facility is to mature, so any allocation next week would add extra liquidity to the market and help to dispel fears of an immediate tightening, which have put upward pressure on call money.

Fears of tightening intensified last week when the Bundesbank cut the allocation of its most recent pact to only DM17.6bn, to supersede an expiring DM18.6bn facility.

This followed a rise in the US Federal Reserve Board's discount rate to 6.5 per cent, from 6 per cent on August 9.

However, the allocation was still the fourth-largest this year, which led some dealers to feel the Bundesbank preferred to split the volume and offer liquidity via a second pact this week.

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OVERSEAS NEWS

# Pan-European insurance market likely to be a long way off

Progress to date towards true cross-border freedom of trade has to be put into perspective, Nicholas Bunker argues

A LOT OF the activity among European insurers is "panic," says an executive of Royal Insurance, the biggest UK-based property/casualty insurer. "People are afraid of being eaten."

Last week's announcement that merger talks have collapsed between Royal and the French insurer Groupe Vie are a sign of two things.

First, the prospect of a free European internal market in insurance in 1992 has perhaps concentrated some insurers' minds on the need to grow — by merger or acquisition if need be — to survive in what could be a harsher competitive world. Second, despite the rhetoric, the creation of a pan-European insurance market is still likely to be long-drawn-out affair.

Progress to date towards true cross-border freedom of trade in insurance has to be put into perspective. So far, the European Commission has pushed through the Council of Ministers and the European Parliament only one directive allowing for freedom of insurance services.

Effective from July 1990, it allows cross-border trade in so-called "big risks" — non-life insurance for companies with more than 500 employees or 515m turnover.

Few observers now doubt that in the early 1990s cross-border trade in the industrial insurance market will be happening. But will much business actually move?

"The framework will be there, but I doubt if there'll be wholesale switching of business," says Mr Edward Hester, of Zurich Insurance's International Division in London.

Prospects for cross-border flows of "big risk" non-life business depend on two other factors: the ease of appropriate distribution systems and of unmet insurance demands in continental Europe.

In terms of distribution, the difficulty is the stunted growth of insurance broking in Europe. The biggest French broker, Fagnère et Juhéau, and its biggest West German counterpart, Jauch & Hubener, are tiny compared with the biggest London brokers, or the giant New York-based Marsh and McLennan.

The big US and UK brokers should, in theory, be able to take business away from European markets. Marsh alluded to post-1992 opportunities when it announced this spring that it would run its non-North American business from its London subsidiary, C.T. Bowring.

Yet the prospects of cross-border trade will be limited by the ways customers in different countries perceive their insurance needs.

Mr Steve Schleisman, who has moved from New York to Paris to head UNAT, the European property/casualty arm of American International Group, has found insurance buyers in Europe to be more conservative than those in their North American counterparts.

The US risk-manager sees himself as an integral part of operations, rather than as a service function, he says.

That is not surprising. In the US, the rapid extension of concepts of legal liability has meant that liability insurance forms the biggest component of corporate insurance bills. More traditional perils — fire, storm, theft, flood — have bulked larger in Europe.

UNAT has found it relatively hard to sell directors' and officers' liability policies to the Swedes or the French. From this point of view, the real opportunities opened up for insurers by 1992 will be that the creation of a single European market in manufacturing industry will create new corporate insurance needs by opening up more complex risk exposures.

Regarding so-called mass risks, the European Commission hopes to adopt a proposal on freedom of services in motor insurance this year. If ratified by the European Parliament within two years, it could be in force by the end-1992 deadline, though it seems likely that smaller countries would be allowed a transitional period.

Life insurance is tougher. The European Commission has a goal of producing a draft directive on freedom of life insurance services by the end of 1988. Privately, officials indicate that there may have to be several bites at the cherry.

A first directive might allow buyers to obtain life assurance from abroad, on their own initiative. The next one would allow active cross-border marketing of group life schemes. Only later would the Commission offer them the right tax advantages.

Yet the mundane quality of personal business such as motor insurance could inhibit utilisation of the freedom of services directive. The Auto-

Country	Total business	Non-life	Life
Switzerland	1,746.5	806.5	938.0
West Germany	977.7	563.2	414.5
Norway	874.8	437.4	437.4
UK	807.0	357.7	449.3
Sweden	797.1	350.4	446.7
Netherlands	788.1	428.6	359.5
Finland	768.7	290.2	478.5
Denmark	743.4	435.0	308.4
France	657.9	401.8	256.1
Austria	581.0	447.4	133.6
Ireland	615.8	255.4	360.4
Luxembourg	583.4	405.6	177.8
Belgium	510.3	369.0	141.3
Italy	252.6	206.4	46.2
Spain	157.5	109.4	28.1
Portugal	78.1	66	12.1
Greece	46.2	32.1	14.1

Source: Swiss Reinsurance Company

tion draft a directive opening up freedom of services across a full range of products.

A key sticking point — which could take many years to resolve — is the wide variety of tax provisions governing the treatment of life insurance in different member-states.

Mr Andrew O'Leary, of Clerical Medical, the British life office, says: "Some tax harmonisation is essential. There's no point trying to sell life assurance to French people if we

mobile Association, the UK's biggest motor broker, reckons it is in contact with 75 per cent of its policyholders in any year on routine matters.

It seems unlikely that this could be handled across borders — though Mr Alan Horsford, Royal Insurance's chief executive, says it could happen between the Benelux countries.

So the crucial factor reshaping European insurance borders — but the shifts inside

each member-state. The biggest changes would occur if consumer pressure at home and price competition from abroad caused domestic industries to dismantle their official or unofficial tariff arrangements.

West Germany has the reputation of being one of Europe's most cartelised markets. This may be illusory. According to Mr Bengt Westergren, another UNAT executive, West German "big risk" insurers find ways around the system. "The tariffs are undercut routinely," he says.

None the less, last month the West German Federal Cartel Office recommended ending the present regime, in which rates and policy wordings have to be approved by the Federal Insurance Supervisory Office after consultation with insurers.

What happens if tariffs vanish? One precedent is what occurred in the UK in 1968, when leading insurers decided to abandon the motor tariff, the mechanism for fixing minimum motor insurance prices. The result was a price war which caused severe losses.

From insurers' point of view, liberalisation of non-life markets could simply dissipate profitability. "This movement is occurring for consumerist, rather than business reasons, and that is bound to narrow margins," says Mr Tony Wyand, a director of the UK's Commercial Union.

One Parisian insurer says:

"West German insurers aren't going to let foreigners take their business. If necessary, they'll let themselves bleed by cutting prices."

The orthodox view is that the approach of a single market has unleashed the present



wave of insurance mergers and acquisitions, such as the union of the AXA and AGP groups in France.

According to this argument, the big players are striving to form pan-European alliances to shore up profitability and grab distribution systems.

This inspired Wood Mackenzie, the stockbroker, to label Britain's composite insurers "the Rowntrees of the financial sector" because of their alleged attractiveness to predators such as Allianz of West Germany and Generali of Austria.

In reality, the acquisition activity pre-dates the wave of expectation surrounding 1992. Observers point to three interlocking factors which were promoting it, anyway.

The first is the relative underdevelopment of insurance — especially life assurance — in southern Europe.

The Swiss Reinsurance Company estimates that life assurance premium volume per head of population in 1986 ranged from less than \$30 in Spain to nearly \$1,000 (\$590) in Switzerland.

The widespread perception of the growth potential of southern European markets has spurred Allianz and the big Swiss insurers, Zurich Insurance, Winterthur and Swiss Re, to annex Italian companies in particular.

Winterthur recently bought the Rome-based Intercontinental Assicurazioni and Swiss Re gained control of the Trieste-based Lloyd Adriatico in 1987.

A second factor is the intense fragmentation of two markets in particular: France and Spain each has more than 500 insurance companies, and both are well aware of their vulnerability. There has been scope here for some time for the kind of consolidation which occurred in the UK in the late 1950s and 1960s, when a series of mergers created the big composite insurers which now dominate the non-life market.

Thirdly, there is the little-noticed worldwide surge in English growth in reinsurance volumes as the growing size of primary underwriting companies enables them to retain more of their own risks — a factor which has helped drive Europe's big "professional reinsurers", such as Swiss Re, to seek new markets.

# OECD urges reform of Japanese land tax

By Ian Rodger in Tokyo

REFORM of regulations and taxes on land is the most urgent structural change needed in Japan, according to the latest annual report on the country's economy by the Organisation for Economic Co-operation and Development.

"Distorted markets and using land inefficiently has a significant adverse effect on living standards," the OECD report says in a lengthy analysis of the progress of various structural changes in Japan.

"Poor housing is perhaps the single most important factor holding back an advance in Japanese living standards."

The OECD report acknowledges that land is perhaps Japan's most scarce resource, but argues that current prices are artificially high.

Even before the recent surge in urban land prices, the value

of all land in Japan was 1.5 times higher than that of all the land in the US.

Changes in regulations and taxation could increase the supply of land for housing significantly and thus push down residential land prices, the report suggests.

It notes that, because of building restrictions, central Tokyo is less densely populated than Paris or Manhattan.

This is partly because regulations limit the height of buildings in residential areas to 12 metres and limit wooden structures to 40 metres. There are also rules restricting the proportion of a site which can be built on.

Meanwhile, the tax system discourages the release of unused or underused land. Capital gains and taxes are higher than inheritance taxes,

while property taxes (rates) are charged at 1.4 per cent on assessments that are, in general,

"Poor housing is perhaps the single most important factor holding back an advance in Japanese living standards"

less than a fifth of actual value.

Land in an urban area used for farming is exempt from rates and from inheritance taxes if used for farming for at least 30 years following the succession.

The report acknowledges that reform of these measures will be politically difficult, but argues that it is urgent.

"The international implications may also be significant. Lower land prices would reduce the size of the downpayment needed to acquire a house, and this might reduce savings and encourage greater investment in housing."

"By thus affecting domestic saving-investment balances, this change would tend to reduce the current external surplus."

The report's focus on structural problems in housing and other services, such as distribution, telecommunications and transport, is based on the OECD's view that services will have to play a much greater role in Japan's economic growth in the next few years.

It acknowledges that in the past few years far-reaching measures have made many service sectors more open to competition and more responsive

to market demands. However, it calls for further progress in a number of areas:

- Distribution: severe regulations limiting the expansion, and operation of large shops should be eased, and the anti-competitive elements in sale-agent distribution arrangements should be reviewed;
- Air transport: better use of airports other than the main Tokyo and Osaka ones would ease congestion and create room for more capacity;
- Road transport: regulations restricting entry and limiting the scope of haulage businesses should be reviewed;
- Financial markets: steady progress has been made, but interest rates on small denomination deposits (less than ¥10m), which account for more than half of all deposits with major banks, remain regulated.

# Taiwan rejects coalition offer

By Bob King in Taipei

TAIWAN has turned aside an indirect offer from Peking for talks on the formation of a coalition government that would include Taipei's ruling KMT, or Nationalist Party.

Analysts say the government believes the offer — which Mr James Hsiung, a Chinese-American scholar, relayed to a conference run by the Asia and World Institute in Taipei last week — probably amounts to no more than an attempt to discover whether Taipei is moving away from its insistence that the government there represents all China, in favour of a policy of independent nationhood for Taiwan.

Dr Philip Chen, director of the institute, said there was puzzlement in Taiwan as to why, if the offer were serious, Peking had made it through Mr Hsiung, rather than directly.

Dr Chen said the indirect approach reflected, more than anything, Peking's growing unease at the increasing shift in power on Taiwan to local Taiwanese. Programmes aimed to end the decades-long domination of bodies such as Parliament by people from the mainland are now under way.

Mr Lee Teng-hui, himself born in Taiwan, is now both head of state and party chairman, and is less vulnerable to emotional appeals over reunification than his predecessor, Mr Chiang Ching-kuo.

Mr Hsiung said China is offering to renounce the use of

force against Taiwan, draw up a new constitution that would eschew the "four cardinal principles" of communism, and share power with the Nationalist Party.

Other observers say that, to gain Taipei's confidence, Peking will have to demonstrate its sincerity through, say, participation on equal terms in international bodies and events.

# HK prime increased to 9.5%

By Our Hong Kong Correspondent

THE Hong Kong Association of Banks decided at the weekend to raise the local prime lending rate by half a percentage point to 9.5 per cent. The new rates will be effective from today.

The move was made because of the continued rise in the general level of interest rates, in both the local wholesale money market and the Euro-dollar market, the Association said.

Local interest rates have now increased by 3.5 points since April, when the prime rate in Hong Kong stood at only 6 per cent.

Analysts said the latest increase would be unlikely to have much effect on the local stock market.

Expectations of a local interest rate increase rose after last week's move by the US Federal Reserve to raise its key discount rate half a point to 6.5 per cent.

# Aquino urged to quit Philippines

Philippines newspapers yesterday urged President Corason Aquino to respond to a call by her vice-president to resign, AFP reports from Manila.

Vice-President Salvador Laurel had accused Mrs Aquino's Government of incompetence and urged her to call new elections. She refused to comment.

# S Korean police harden tactics at rallies

By Maggie Ford in Seoul

POLICE using staves and stones broke up two peaceful student rallies in Seoul yesterday by way of a change of tactics that is likely to heighten criticism of the Government.

The students are planning to march to the border village of Panmunjom today in an attempt to hold a meeting on reunification of the divided nation, with their counterparts in North Korea. The Government has pledged to stop them.

The violent demonstrations, yesterday, when police and students pelted each other with stones and beat each other with sticks, followed a police decision to reduce the use of tear gas before the Olympics here next month.

# China eases 'one child' policy

By Peter Ellingren in Peking

SLOWLY, and with little or no official fanfare, China is beginning to relax its key means of birth control, the one-child policy.

Instead of strictly limiting all families to a single offspring, the Government is now allowing some rural couples with one girl to have a second child.

Informally dubbed the "one-and-a-half-child" policy, the more flexible approach follows gains in population control and apparent acceptance of the impossibility of eradicating the preference for male children.

The new attitude amounts to an admission that heavy fines and penalties imposed for breaching the one-child policy have not always worked.

A farmer facing a fine summed up the Government's dilemma when he claimed girls could not do hard farm work.

and left the family home on marrying.

"Money is dead treasure; a son is living treasure," he said.

Typical of the new thinking is the coastal Shandong Province, near Peking, where the local family planning committee surveyed 1,138 couples and found a majority with one girl wanted another baby.

Surveys in Wendeng, Jiaoxian and Wufu counties showed that the first child in families with two children often was female.

So, after what Chinese officials describe as "frank discussions", it was decided to let mothers over 30 with one girl have another baby.

"We believe that even though the birth rate might go up slightly as a result of the new policy, the province's overall population plan will not be affected," a spokesman for the committee explained.

# Colombo police launch drive to balk terrorists

By Mervyn de Silva in Colombo

POLICE launched a security operation in Colombo yesterday as state radio and television broadcast hourly warnings of possible bomb attacks today — India's independence day.

The authorities warned that the Tamil Tigers, the main separatist group fighting a 60,000-strong Indian peace-keeping force in the north of the island, had despatched a specially trained, 95-member terrorist squad to Colombo.

Police began house-to-house searches in Tamil suburbs, while army units patrolled the Indian business sector and all Indian High Commission buildings. Airline offices and banks were heavily guarded.

# WORLD ECONOMIC INDICATORS

Country	UNEMPLOYMENT				
	July '88	June '88	May '88	July '87	June '87
USA 000's	6,425.0	6,455.0	6,783.0	7,251.0	6.0
%	5.4	5.3	5.6	6.0	6.0
UK 000's	2,348.8	2,426.9	2,592.8	2,902.3	11.3
%	8.5	8.8	9.2	11.3	11.3
Japan 000's	1,450.0	1,540.0	1,570.0	1,780.0	3.0
%	2.4	2.5	2.6	3.0	3.0
W. Germany 000's	2,131.4	2,149.3	2,261.7	2,458.7	7.8
%	7.8	8.0	8.2	7.8	7.8
Netherlands 000's	675.9	647.4	663.9	657.9	13.8
%	11.7	11.2	11.5	13.8	13.8
Belgium 000's	424.5	429.6	443.2	466.1	11.4
%	10.3	10.4	10.7	11.4	11.4
Italy 000's	3,762.0	3,638.0	3,624.0	3,213.0	10.5
%	16.2	15.7	15.6	10.5	10.5
France 000's	2,478.1	2,478.1	2,547.8	2,522.4	10.8
%	10.4	10.6	10.9	10.8	10.8

Source: (except US, UK, Japan) Eurostat

# SHIPPING REPORT

# Tanker rates steady in Gulf

By Kevin Brown, Transport Correspondent

RATES remained broadly steady in the Gulf last week, but the volume of inquiry for ships was relatively low as the industry awaited the outcome of the ceasefire agreement between Iran and Iraq.

Brokers said many traders remained sceptical about the agreement, and were unlikely to re-enter the market in strength until it was clear that stability had been restored.

The reluctance to fix cargoes was exacerbated by the uncertainty caused by fluctuations in the price of crude oil, and the impact of higher interest rates in the UK and US.

Hopes for an improvement in the market in the short term rest on the continued strength of world demand for oil, largely because of the continuing buoyancy of the US economy.

However, brokers pointed out that around 1.25m barrels per day of the 18.5m-19m b/d being produced by the Organisation of Petroleum Exporting Countries is believed to be going into storage.

E.A. Gibson, the London brokers, said this could overhang the market next year, and warned against too optimistic about long-term rate

risers with a strong dose of realism.

In the Gulf, very large crude carriers were being hired at around Worldscale 40 to the West and slightly less to the West. One ultra large crude carrier was reported to have been fixed at Worldscale 37 to the West.

Demand for product tankers was affected by the continued absence of Japanese charterers. Brokers said the Japanese companies were still absorbing a large number of 50,000-ton cargoes arranged last month for August loading.

**Akzo nv** Registered Office at Arnhem

**Report for the 1st half year 1988**

Consolidated statement of Income

	January-June 1988	
	1988	1987
Net sales	8,161.0	7,652.4
Operating costs	(7,413.4)	(6,984.0)
Operating income	747.6	668.4
Financing charges	(106.7)	(55.4)
Operating income less financing charges	640.9	613.0
Taxes	(235.9)	(225.2)
Earnings of consolidated companies from normal operations, after taxes	407.0	387.8
Earnings from nonconsolidated companies	50.5	9.4
Extraordinary items	(7.2)	2.2
Group income	450.3	399.4
Minority interest	(14.0)	(28.4)
Net income	436.3	371.0
Net income per common share of HR 20, in guilders	10.85	9.23
Common stock	804.2	802.4

**Sales and income**

The net income of HR 242 million realized in the second quarter of 1988 exceeded the figure of HR 191 million for the second quarter of 1987 by 27%. Both the contribution of the consolidated companies and that from the nonconsolidated companies were up substantially.

Extraordinary items aside, the quarterly income now reported is the highest ever to have been achieved by Akzo.

Net income for the first half of 1988 now totals HR 436 million, compared with HR 371 million in the prior year period.

Net income per common share for the first half of 1988 works out at HR 10.85, compared with HR 9.23 for the first half of 1987.

Sales of HR 4.2 billion in the second quarter of 1988 were 8% higher than in the second quarter of the previous year.

Sales for the first half of 1988 aggregate HR 8.2 billion, equivalent to a 7% rise on the corresponding 1987 figure. Higher shipments accounted for approximately 6 percentage points of this gain, whereas acquisitions and divestitures on balance resulted in a decline by 1 percentage point. Selling prices on average advanced 3% but the effect of this was in part neutralized by a drop of approximately 1% in American Group company sales, translated at lower rates of exchange.

Operating income for the second quarter of 1988 was HR 402 million, equivalent to 9.6% of sales, compared with 8.7% in the first quarter of the year. For the first half of the year the profit margin is 9.2%, compared with 9.0% for the first half of 1987 after deduction of sales and earnings of the consumer products division.

**Outlook**

Based on the results for the first half of the year, and provided that the present economic conditions continue to prevail, we expect that net income before extraordinary items will be significantly higher than the 1987 figure of HR 669 million.

Arnhem, August 1988

The Board of Management

**Sales and operating income by product group break down as follows**

(In millions of guilders):

Sales	1st half year 1988		1st half year 1987	
	1988	1987	1988	1987
Chemical products	2,928	2,112	326	227
Man-made fibers	1,711	1,627	73	69
Coatings	1,390	1,215	119	90
Pharmaceuticals	1,196	1,105	170	165
Miscellaneous products	1,048	1,002	72	85
Intra-Group deliveries	8,275	7,061	760	636
	(112)	(130)	(12)	(15)
Consumer products	8,161	6,931	748	621
	-	721	-	47
Total	8,161	7,652	748	668

Copies of this report may be obtained from the London Paying Agents: Barclays Bank PLC, Stock Exchange Services Department, 54 Lombard Street, London EC3P 3 AH and Midland Bank PLC, International Division, Securities Services Department, 110-114 Cannon Street, London EC4N 6 AA. The report for the 3rd quarter of 1988 will be published on November 3, 1988.

UK NEWS

# Smaller building society tops performance table

By David Barchard

TOWN AND COUNTRY, the smallest of the top 16 building societies, emerges as the industry's star performer in the first detailed analysis of building societies published today by Phillips & Drew, the London finance house.

The report shows there is no direct correlation between the size of the main building societies and their financial strength. Some societies which were first to declare themselves against conversion into companies emerge as the weakest financial performers.

Town and Country is ahead of all the other societies surveyed on seven out of 12 performance criteria. The criteria were intended to show the financial strength of building societies on the basis of profitability, capital strength, market share, revenue cost, and growth. The purpose of the report is to itemise the strengths of building societies at a time when some may be tending to drop mutual status.

Two other societies close to the top of the table were Abbey National, and Cheltenham and Gloucester. Abbey National announced last April that it

plans to shed mutual status if its members approve, while Cheltenham and Gloucester is considering its strategy.

Mr John Wrigglesworth, who prepared the report for Phillips & Drew said yesterday: "The key ratios of profitability, capital adequacy and management expense show Town and Country consistently doing better than most other societies. Its main weakness is its relatively small share of the market."

His study will provide some encouragement for Abbey National's proposed flotation as it shows the society is in the top five for nine out of the 12 categories and has a record of growing profitability and reduced management expenses in the past few years.

Halifax, the largest building society, comes only sixth. It has a strong lead on market share but its indicators of capital strength are below average for the top 16.

Gateway, a society which vanished when it merged with Woolwich this summer, comes bottom of the table, doing

poorly on all the criteria chosen by Mr Wrigglesworth.

Nationwide Anglia, the third largest society, in one of the surprises of the study, comes out only slightly above Gateway. Its main areas of weakness seem to be profitability, capital strength, and management expenses.

Britannia also comes out poorly, with single-figure ratings in only three of the performance tables.

Both societies say they favour retaining mutual status. The reason for Nationwide Anglia's poor showing, on the basis of the figures in the report, may be rising management expenses which account for 65 per cent of its income compared with 41 per cent for Abbey National, and an average of 48 per cent for the top 16 societies.

This may reflect the ambitious diversification into new financial services by Nationwide Anglia while the society is still affected by the merger between the old Nationwide and Anglia societies.

# Rate rises highlight credit card divisions

By David Barchard

RECENT increases in interest rates by the main credit card organisations highlight sharp divisions emerging in the UK plastic cards market.

Newer card issuers are trying to undercut established brands such as Barclaycard and Access.

Barclaycard announced at the weekend that it had increased its annual interest rate to 26.8 per cent and last week Lloyds Access and TSB Trustcard, the second largest Visa card, put their rates up to 25.3 per cent APR.

These rates may look high but they are really not excessive when you consider firstly that about 45 per cent of our customers pay no interest because they settle their accounts in full every month, and most of the remainder will pay off their balance in two or three months, incurring an effective rate of well below 20 per cent. By the standards of the money markets, the credit we offer is in fact very reasonably priced," said the general manager of one credit card operation who asked not to be named.

Credit card issuers are especially sensitive at present to charges that they make exces-

sive profits because an inquiry into the credit card industry is being carried out by the Monopolies and Mergers Commission, which is due to report next May.

The commission's report is expected to lay the ground rules for the future development of the credit card industry at a time when it is going through intense upheaval.

The two main systems, Visa and Mastercard, are both allowing new entrants to join, thereby placing hard strategic choices on existing card issuers.

Charles Hodgson writes: Mr John Smith, the Shadow Chancellor, last night called for tighter ceilings on interest rates charged by credit card companies and "fringe" lenders to protect consumers.

He said there was an "excessively wide margin" between interest rates charged by banks and those charged by credit card companies. "These companies already enjoyed very healthy profit margins" and he saw no justification for the Barclaycard increase.

Last week Mr Smith called for tougher controls on "easy credit" which was leading many families into disaster.

# Ministry 'failing' to protect land

By Bridget Bloom, Agriculture Correspondent

THE MINISTRY OF Agriculture is no longer prepared to fight to protect good farmland in the long-term interests of the countryside, the farming industry and the economy, according to one of Britain's main conservation agencies.

The Council for the Protection of Rural England argues that, following changes to rural planning procedures in May last year, the Ministry of Agriculture is taking a more permissive attitude to development for non-farming purposes such as housing or roads.

The CPRE maintains that in 1987 the ministry objected to less than one in 20 applications to develop farmland - the lowest proportion ever. The CPRE claims the ministry is failing to fulfil the obligations it still has under the planning process.

The agriculture ministry has long been seen as the guardian of agricultural land, since applications for permission to develop land which has not been included in county structure plans have traditionally been submitted to it for approval or rejection.

The CPRE maintains that this obligation remains, in spite of a weakening in the ministry's role following the introduction of the Department of Environment circular 16/87 in May 1987, which was part of the so-called Aire package detailing policies on alternative land uses.

The CPRE's criticism comes less than a month after the Countryside Commission, the Government quango whose role is to advise Government on the countryside, called for a more coherent strategy on rural development.

Concrete Objections - The Ministry of Agriculture's Response to Applications for Development of Agricultural Land. CPRE, 4 Robert Place, London, SW1 1ES.

Planning for Change: Development in a Green Countryside. Countryside Commission, Cheltenham, Gloucestershire.

# Economics that threaten a Hotel launch

David Fishlock on a project that cannot survive on technological promise alone

HOTEL, now owned by Rolls-Royce, was first publicised at the Farnborough Air Show of 1984 and is arguably the most glamorous piece of advanced technology to fall foul of the Government's purge of its less productive research and development investments.

Unlike the nuclear fast reactor programme, on which the taxpayer has been spending more than £100m a year, Hotel - the horizontal take-off and landing space launcher - has cost the Government very little, mostly on studies into whether the concept will work.

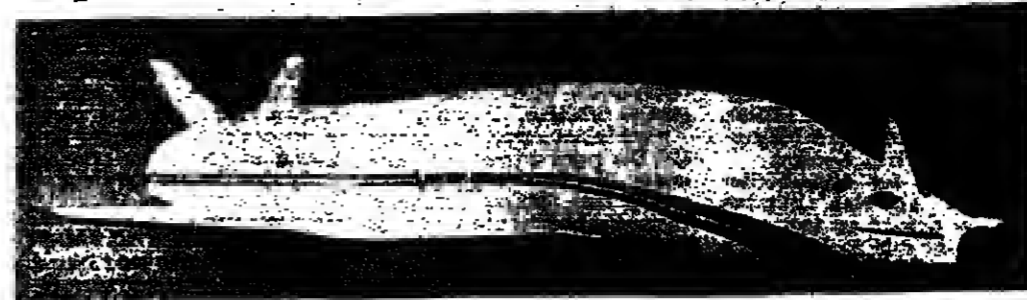
For the past year, since completion of phase one of the Hotel study, British Aerospace and Rolls-Royce have kept the project alive with their own funds, hoping for government support for phase two.

Phase two is intended to test some of Hotel's key features in rigs, at a cost of perhaps another £5m over three years, in preparation for phase three.

Phase three would take the project into the demonstrator stage, building and breaking real engines. Rolls-Royce cannot yet say what this phase may cost.

The case against Hotel is that as a re-usable space launcher, very few will be needed - fewer than 20, says Sir Francis Tomba, Rolls-Royce chairman. Britain, in spite of claiming a world lead, is not the only nation developing a re-usable space launcher and must at best expect to share any market with the US, Japan and West Germany.

In short, Britain cannot expect to get a commercial return from an outlay which industry estimates suggest will



A model of Hotel: The project is unlikely to progress because of a limited market

be in the order of £50m or £60m. Why spend another £5m on phase two when, under the Government's own R and D rules, there is no likelihood of it funding phase three?

Enthusiasts for space travel have risen in support of Hotel's inventor, Mr Alan Bond, to contest this conclusion, which was endorsed by the Government last month. Mr Bond has publicly threatened to take his ideas overseas and claimed he is hampered only by the fact that the Government has "classified" his technology as having military potential.

In fact, as Rolls-Royce has now disclosed, Mr Bond has already sold his invention to the company. And Rolls-Royce can see no way of getting a commercial return itself on developing a Hotel engine, designated RB-548.

A Rolls-Royce executive says everyone should forget talk of passenger travel at hypersonic speeds: Hotel is not a potential passenger-carrying vehicle, it is a space launcher; a way of putting payloads into orbit more cheaply than rockets and the US Space Shuttle.

As an airliner, Hotel would be far less efficient than Con-

corde, which itself can carry only 7 per cent of its take-off weight as payload. Hotel's objective is only 3 to 3.5 per cent - and this is regarded as optimistic. On the other hand, a typical single-stage launcher has a payload of 1 per cent.

What Hotel offers is a way of reducing the heavy burden of liquid oxygen which a conventional space launcher must carry.

Mr Bond envisaged an engine fuelled by hydrogen which would behave like a conventional jet engine for the first few minutes of flight, using air sucked in from the atmosphere to burn the fuel. The engine would then pass through a transition stage when stored oxygen first boosted, and then replaced, the air as the launch vehicle left the atmosphere.

In the 1960s, Mr Bond worked for Rolls-Royce as a rocket engineer, winning a reputation as a man of vision. He gained the idea that nuclear fusion reactions might become the basis of the space engine he sought and he joined the fusion research centre of the UK Atomic Energy Authority at Culham, near Oxford.

Culham's management says the first it knew of his invention was when the Ministry of Defence classified it. They then learned, to their astonishment, that Mr Bond had done the calculations at home in his own time, leading to his own patent application.

Rolls-Royce executives say they were far from certain Bond's concept would work. The air sucked in by the engines would become very hot at high speeds through the atmosphere, creating difficulties for efficient combustion. Clever heat exchangers had to be invented to cool and dry the air.

Bond was seconded to Rolls-Royce by Culham for two days a week during phase one, which is why he has been seen on television wearing a Rolls-Royce insignia on his white coat. He is now back full-time at Culham.

Mr Stuart Miller, Rolls-Royce's director for corporate engineering, admires Bond's achievements and believes the Hotel concept can be made to work. But he has to worry about whether there would be enough customers for such an engine?

A development phase costing £50m to £60m cannot hope to show a return for the company when the world market for such a re-usable engine is fewer than 30. In addition, there is little scope for spares, normally a large part of the aero-engine business.

If Mr Bond's belief holds true - that it would be a cheaper way of making space launches - the biggest beneficiary will be satellite operators, such as telecommunications and broadcasting companies. And the MoD, for whom it could open fresh options in defence strategy.

Rolls-Royce executives stress they would love to have a contract to develop the Hotel hydrogen-burning engine. It would stretch the technology and would be a technical challenge - though less of a challenge, they say, than for British Aerospace which would need to trim every gram of surplus weight in order to minimise the drawback of such a bad payload-to-weight ratio.

However, Hotel would give Rolls-Royce valuable experience of the high-speed regimes for turbo-machinery beyond Concorde, for aircraft travelling at between Mach 3 and Mach 6.

As a private venture funded by the company, however, it competes poorly with developing a new civil airliner engine. Industry wisdom suggests that it would cost about £1bn to develop a big new engine from scratch. In practice, most new aero-engines are derivative and their R and D costs are but a fraction of this.

# Self-employed group criticises tax policy

By Charles Batchelor

GOVERNMENT efforts to encourage small business are being hampered by an Inland Revenue crackdown on the self-employed, according to the National Federation of Self-Employed and Small Businesses.

While the Government is keen to encourage more flexible work practices, the Revenue and the DSS are making life more difficult by arbitrarily re-classifying many traders as employees, claims the federation, which has almost 50,000 members.

For the past year, the federation has been campaigning for the Revenue to change its tactics but has been alarmed by the much tougher attitude the Revenue has recently adopted

in the west country to traders with more than one business. They are being required to register as employees for all but their main business.

The federation hopes to promote legislation requiring the burden of proof to be shifted to the Revenue to show someone is not genuinely self-employed.

Mr Brian Prime, federation chairman, said: "It is futile to have millions of pounds being advanced by Government to stimulate self-employment when you have the DSS and the Revenue pursuing a policy that rules out the jobbing self-employed people who can turn their hand to many skills."

People such as market researchers or consultants who

might work for several different people in a week could be forced to become "employees" of the clients for whom they work in spite of the fact that they do not deal exclusively with one company, the federation warned. This would mean that in theory they would have to get a P45 form completed after every job.

One federation member, who is an estate agent and financial adviser, does occasional book-keeping for his father's company and has been told by the Revenue he must be employed by his father rather than invoice him and receive a fee.

Many self-employed traders with seasonal summer businesses do different jobs in the winter.

It seems that they will have to do such work as "employees" even if they have VAT registration numbers and are working quite independently using their own tools and vehicles, the federation said.

People who moved from employment and self-employment in the same year would spend much of their employed time on emergency rates of tax since their tax liability while self-employed could not be calculated until the year end, the federation said.

There are 2.7m self-employed people in the UK, just over 10 per cent of the workforce.

Their numbers have increased over the past decade with strong growth in the service sector.

# Barclays creates department

By Peter Montagnon, World Trade Editor

BARCLAYS BANK has reorganised its medium-term export credit and project finance business into a single department which will be part of its corporate division.

The department, for which Mr Mike Rowlinson, a corporate division director, will have overall responsibility, will combine the provision of services to exporters requiring medium-term finance with the supply of project advisory services and medium-term limited recourse financing.

This will include the business of assisting contractors with finance for project development both in the UK as well as abroad. Appointments, Page 8

# Role for Sun Life chief

By David Lascelles

MR PETER GRANT, chairman of Sun Life, the life assurance company, and former deputy chairman of Lazard Brothers, merchant bank, has been appointed head of the London operations of PaineWebber, the US investment bank.

Mr Grant, 58, said yesterday that he saw his role as developing the European presence of PaineWebber, which has not yet achieved the same standing as other US houses such as Morgan Stanley and Goldman Sachs. He said PaineWebber was particularly strong in the management buy-out business, which needed good market

connections. It was also a substantial fund manager.

Mr Grant has spent 35 years in corporate finance and merchant banking. Much of his time recently has been taken up at Sun Life trying to seek alliances with foreign insurance companies in Europe and the US. The plan is being fiercely opposed by Trans-Atlantic Holdings, the 58 per cent shareholder which is controlled by Liberty Life of South Africa.

Mr Grant said he expected to divide his time equally between PaineWebber and Sun Life.

# Airports authority rejects complaint of high costs

By Kevin Brown, Transport Correspondent

BAA yesterday rejected claims by airlines that its charges were too high and claimed that it seeks only a "fair and modest" return on investment.

BAA refused to comment in detail on a complaint about its pricing policy prepared by the Board of Airline Representatives, which speaks for about 50 airlines.

The complaint concentrates on increased charges for check-in desks and office accommodation at London's Heathrow and Gatwick airports, which BAA operates. BAA said it was subject to "very stringent" regulatory control by the Government and the Civil Aviation Authority, designed to ensure that

charges were closely related to costs.

The Government restricts increases in landing charges and associated passenger fees to one percentage point less than the annual increase in the Retail Prices Index.

The CAA is responsible for regulating all other charges, such as for coach parking, which the BAA is trying to increase.

"The BAA said: "The charges we make for check-in desks reflect the substantial investment, running into tens of millions of pounds, that we have made in automated optical recognition baggage handling equipment installed at the request of the airlines."

# Faults in new locomotives lead BR to delay delivery

By Our Transport Correspondent

BRITISH RAIL has postponed delivery of part of a £50m fleet of electric locomotives being built by British Rail Engineering (BRE) and GEC because of technical problems identified during testing.

Eight of the Class 90 locomotives have been delivered for use on the west coast main line between London to Glasgow. However, BR has refused to accept delivery of the ninth until modifications have been carried out.

British Rail said: "We are not taking any more beyond the eight, but production is continuing and we expect deliveries to resume shortly, when modifications can be done to those delivered and

those awaiting delivery."

The locomotives are being built by BREL, with traction equipment supplied by GEC. The source of the problems is unclear, but GEC said its electrical equipment was not to blame.

Mr Brian McCann, managing director of GEC Transportation Projects, said: "We don't have any problems with our part of the contract."

No comment was available from BREL. The delay is unlikely to have much effect on west coast express services, since the 11th Class 90 locomotives have the same top speed as the existing Class 87 stock on the line.

# Small National Savings inflow

NATIONAL SAVINGS saw a small net inflow of £12.4m in July. This reverses the large £50m outflow registered in June but continues the declining trend in National Savings contributions seen for much of this year.

The main net contributions to funding came from income bonds (£94m) and investment accounts (£63m). But there was a £56.3m net outflow of fixed interest certificates, including accrued interest.

The total net contribution to the funding so far this year amounts to £26m, down from £244.7m in the same period last year.

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UK NEWS

**Vigorous retail sales expected to continue**

By Ralph Atkins, Economics Staff

VIGOROUS GROWTH in British retail sales is set to continue through August with no sign of a slowdown, according to a survey released today. The Confederation of British Industry/Financial Times distributive trades survey shows that retailers are more optimistic about sales volumes this month than at any time since December 1987.

It also shows that a striking 70 per cent of motor traders questioned expect sales in August to be higher than the same month a year before - underlining the recent buoyancy of car sales. Just 3 per cent expect a fall.

The survey indicates that the strength of consumer spending in the UK economy is not abating. If retail sales figures for August match retailers' expectations, it would suggest that recent rises in mortgage interest rates have had little effect so far.

The results are the first of a series of statistics published this week for the British economy. They will be scanned by analysts for signs of a rise in inflation caused by exceptionally fast economic growth.

Official figures for retail sales in July are published today and are expected to show further signs of strong growth.

Bank and building society lending figures, published on Thursday, are likely to reveal big increases, suggesting fast growth in the money supply.

The retail price index, released on Friday, is expected to show the annual rate of inflation rising towards 5 per cent.

Figures for underlying average earnings growth are due on Thursday. These could point to increasing upward pressure on prices.

In the CBI/FT survey, 66 per cent of retailers said sales volumes were higher in July than the same month a year before, while 10 per cent reported a fall.

For August, 65 per cent expect an increase compared with August 1987, just 4 per cent anticipate a fall.

Shops selling household textiles, furniture and carpets were the most optimistic about sales this month. Food retailers also expect to do well.

The recent fast pace of retail sales has been fuelled by strong earnings growth and buoyant demand for credit.

Tax cuts announced in the Budget earlier this year have also encouraged spending.

Some City of London analysts believe that the strength of sales is leading to bottlenecks in industry an output capacity problem is imminent.

This could put further upward pressure on prices and worsen Britain's trade deficit by sucking in more imported goods.

**More open gas pricing policy may be imposed**

By Max Wilkinson, Resources Editor

BRITISH GAS is likely to be forced to accept a change in its licence to make it more open with its pricing and accounting policies as a result of a Monopolies Commission report now almost completed.

The report, which will be sent to Lord Young, the trade and industry secretary, next week, is a response to complaints by Sheffield Forgemasters that British Gas was overcharging some of its industrial customers.

Lord Young and Mr Cecil Parkinson, the Energy Secretary, are said to have agreed informally that the corporation should be subject to more discipline from competition.

The commission report is expected to suggest three main ways in which this could be achieved.

A rule which would prevent British Gas from buying more than 85 to 90 per cent of gas produced from any new North Sea development. The remainder would be sold to industrial companies or brokers.

A requirement that the company should publish a range of indicative prices charged to industrial companies. This would help competitors get a foothold in the market.

A better breakdown of the company's profits to reveal how much it is earning in the unregulated industrial sector and how much from captive domestic customers.

Mr James McKinnon, director general of the Office of Gas Supply pressed the case for more competition in industrial gas markets earlier this year.

He has also told MPs that he believed it was essential that British Gas should provide profit figures from different market sectors if domestic prices were to be adequately regulated.

These views have doubtless been put strongly in Mr McKinnon's evidence to the Monopolies Commission, and the expectation in Whitehall is that the report will broadly endorse them.

It is also expected that the report will favour an increase in Mr McKinnon's powers to make him an umpire of fair play in the industrial market.

Under the Gas Act drafted in the last Parliament when Mr Peter Walker was energy secretary, the regulator is largely restricted to an oversight of the domestic market.

In this sector annual tariff increases are restricted to 2 percentage points less than the inflation rate, plus an allow-

ance for the increase in North Sea Gas costs.

However, Ogas has already told British Gas that it cannot do its job properly unless it has complete access to the company's financial and operating figures.

It has said that when the formula comes to be revised after five years, the public will want to know whether profits in the controlled monopoly market were reasonable.

The company has now provided Ogas with data from which an analysis of profits and return on investments is expected to be made by the end of the year.

In Whitehall, there is some debate whether the changes which the commission is expected to suggest would require new legislation. It is generally expected, however, that an amendment to the 44-page licence granted by the Energy Secretary would be enough.

This could be done by ministerial dictat.

However, if the Government failed to act it would still be possible for Mr McKinnon to make a separate proposal for a change in the licence, which the commission could then implement independently of ministers.

**Mail may face disruption**

By Michael Smith, Labour Staff

POSTAL SERVICES in Britain may be threatened with severe disruption after a decisive vote by Post Office staff to give union leaders the power to organise industrial action.

The outcome of a secret ballot is expected to be announced today, but Mr Alan Tuffin, general secretary of the Union of Communications Workers, said yesterday that returns indicated a two-to-one majority in favour of giving the union a mandate for action.

The dispute is over the Post Office's imposition of local pay supplements for new employees to ease acute recruitment difficulties in some areas, all in

the south-east of England. Mr Tuffin says the payments breach a deal signed last year to settle a row over the union's claim for a shorter working week, a charge denied by the Post Office.

In a separate development yesterday the UCUW and three other unions said they were organising another ballot on industrial action, this time over the Post Office's plans to convert 250 branches into sub-post offices. The ballot is expected to take four weeks.

The disputes are the latest in a series of highly public rows between the UCUW and the Post Office. Last month the Post

Office won a High Court injunction against the UCUW to stop the union from instructing members to boycott team meetings - workplace discussion groups - aimed at improving industrial relations.

Union claims that industrial relations have sunk to a new low as denied by the Post Office, which says the number of days lost through unofficial stoppages in the past three months is no greater proportionally than the past two years.

Mr Tuffin has written to the Post Office requesting urgent talks on the payments for new recruits.

**TUC intervenes in union row**

By Philip Bassett, Labour Editor

THE TRADES Union Congress has suggested a compromise to try to defuse an inter-union dispute over a single-union agreement.

TUC officials have put proposals to Sogat, the general print union, and the EETPU, electricians union, in an effort to resolve the row over a deal signed by the EETPU with a Finnish-owned company for a new paper mill in the west of Scotland.

The electricians signed a single-union deal with Caledonian

Paper in January. The company is a subsidiary of Kymmene, the Finnish forestry products group.

Sogat leaders reported the deal to the TUC under its inter-union disputes procedures.

The deal will cover 300 manual workers to be employed at Caledonian's £215m high-technology paper mill at Irvine. The EETPU's deal followed a "beauty contest" between four unions - Sogat, the electri-

ans, and the IGWU transport and AEU engineering unions, although full negotiations took place with only the first two.

EETPU leaders said that their single-union deal with Sogot Paper in North Wales demonstrated their presence in the papermaking industry.

However, Sogat, which represents employees at Kymmene's two other UK mills, Star Paper and Wolvercote, said the EETPU had no place in the industry.

**Pit union accepts 6-day deal**

By Charles Leadbeater, Labour Correspondent

NATIONAL Union of Mineworkers' leaders have tacitly accepted the introduction of six-day production at a colliery in south-west Wales, despite their long-standing opposition to flexible working.

The Cynheidre colliery, which voted heavily to help re-elect Mr Arthur Scargill as the union's president earlier this year, is thought to be the first NUM branch to allow weekend coal production.

Its decision could have wide repercussions for the industry. British Coal has been pressing the mining unions to accept six-day coal production at certain pits to ensure that costly machinery is fully utilised.

The state-owned corporation is thought to be close to an agreement with the Union of Democratic Mineworkers over flexible working.

Local union officials at Cynheidre supported the branch's decision because additional weekend working was considered essential to overcome geological problems. The south Wales NUM informed the NUM national leadership.

Mr Peter Heathfield, the NUM's national secretary, told the south Wales NUM that solutions to geological problems were best left to local negotiations, and made no effort to reassert the union's national policy of opposition to flexible working.

Many of the 600 Cynheidre miners are expected to transfer late next year to a drift mine being developed nearby. NUM officials believe British Coal could press the branch to agree to work the new mine on a six-day rota as a condition for keeping Cynheidre open until the new mine starts production.

**CHINA IN HAMBURG**

China Guangxi Export Commodities Fair and Negotiation Meeting for Economic and Technical Cooperation will soon take place at Hamburg, F.R.G.

Place: Messe Halle Beim Mode Centrum Hamburg, Modering 1A, 2000 Hamburg 61, FR.Germany

Time: 9:30 a.m. to 5:30 p.m. from 22nd to 29th August, 1988

Tel: (040) 55 90 1111 + (040) 55 90 1114

Tlx: 2117 51 BFANG D

Telefax: (040) 280 23 34

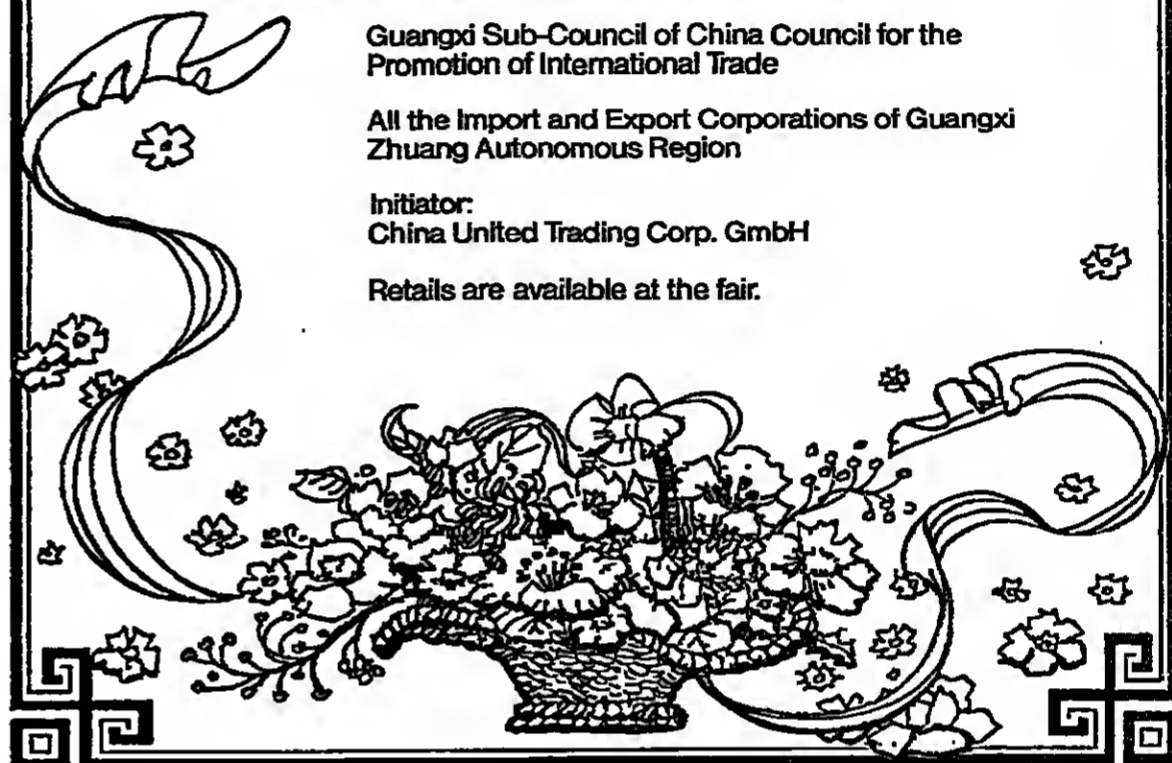
Sponsors: The Foreign Economic Relations and Trade Commission of Guangxi Zhuang Autonomous Region

Guangxi Sub-Council of China Council for the Promotion of International Trade

All the Import and Export Corporations of Guangxi Zhuang Autonomous Region

Initiator: China United Trading Corp. GmbH

Retails are available at the fair.



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US \$ and £ prices are subject to the rate of exchange. Prices for all 6 classes including air mail postage and monthly list of winners. No additional charges.

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This advertisement is issued in compliance with the requirements of the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange"). It does not constitute an offer or invitation to any person to subscribe for or purchase any shares.

Application has been made to the Council of The Stock Exchange for the whole of the ordinary and convertible preference share capital of Tamaris plc, issued and proposed to be issued, to be admitted to the Official List.

Dealings are expected to commence on Thursday, 18th August.

**Tamaris plc**

(Incorporated in England and Wales No. 1099074)

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of up to 8,859,249 Ordinary Shares of 10p each

and of

2,531,214 8½ per cent Convertible Redeemable Preference Shares 2003 of £1 each

**Share Capital**

Authorised		Issued and proposed to be issued fully paid
£1,500,000	Ordinary Shares of 10p each	£85,924.90
£2,531,214	8½ per cent Convertible Redeemable Preference Shares 2003 of £1 each	£2,531,214.00

Tamaris plc owns, manages and develops nursing homes and residential care facilities for the elderly. Certain of the larger homes are also able to provide post operative care, convalescence and medical rehabilitation.

Listing Particulars and Supplemental Listing Particulars relating to Tamaris plc have been made available to Excel Financial Limited and copies of the document containing such particulars are available during normal business hours on 16th and 17th August 1988 at the Company Announcements Office of The Stock Exchange, 46 Finsbury Square, London EC2A 1HD (for collection only) and during normal business hours on any weekday (Saturdays and public holidays excepted) up to and including 9th September, 1988 at:

Parrish Stockbrokers, 1 London Wall Buildings, London EC2M 5PE

Tamaris plc, Bridge House, London Bridge, London SE1 8QR

15th August 1988.

UK NEWS

# Fraud claimed over trade figures

By Charles Hodgson

THE LABOUR Party yesterday accused the Government of fraud in claiming that Britain's trade deficit was a "problem of success."



Tony Blair: figures should serve as a warning

Mr Tony Blair, Labour's trade spokesman, said an analysis of trade figures showed that foreign imports of cars and other consumer goods were the biggest cause of the most recent deterioration in the trading position and not imports of capital goods, as government ministers have claimed.

The current account deficit widened to £5.6bn in the first half of the year following a £1bn deficit in June. Internal Treasury forecasts estimate a full-year deficit of about £10bn.

However, the Government has insisted that the trade deficit reflects the strength of the economy and that as the economy slows to a more sustainable rate, the gap will gradually close.

Interest rates and inflation, and an over-valued pound.

The main conclusions of Labour's analysis, based on the latest Overseas Trade Statistics and the Monthly Review of External Trade, are that:

● Since the beginning of 1987 there has been an increase of more than £3bn in the current account deficit on visible trade;

● The deficit on manufacturing has increased by £3.2bn over the same period;

● Capital goods imports have increased roughly in line with other categories over the past 18 months but in the latest quarter the increase is less than that for cars and other consumer goods.

According to Labour's analysis, imports of cars increased by 13.5 per cent in the second quarter of the year, while other consumer goods increased by 9 per cent. This compares with increases of 10.6 per cent and 4.2 per cent for intermedi-

ate and capital goods respectively.

Mr Blair said that the figures should serve as a "warning to all but the incurably complacent."

"Most of the deficit has nothing to do with capital goods, but is spread right across our manufacturing sector," he said. "Cars and other consumer goods account for a larger part of the deterioration."

Mr Blair added that it was shameful that the balance of trade on capital goods had continued to deteriorate when Britain was a net exporter of these goods as recently as 1983 and when imports were coming from Britain's main competitors in the European Community, the US and Japan.

The analysis also shows that the invisible balance on services is stagnant.

Overseas travel had increased sharply and now contributed heavily to the deficit, Mr Blair said.

# Short-term funds 'are financing deficit'

By Ralph Atkins

BRITAIN'S current account deficit is being financed by short-term and speculative investment inflows, says a leading securities house in a paper released today.

Shearson Lehman Hutton disputes the Government's claim that the growing deficit is being covered by soundly-based, long-term investment flowing into Britain.

Mr Tim Congdon, the paper's author, analyses flows of funds in and out of Britain in the last 12 months.

He says that by far the most important inflows from abroad have been portfolio investment (in company shares, for instance) and inflows via the banking system.

"Most of the new foreign

claims on the UK are highly liquid and can properly be regarded as 'hot money,' he says. "It is very unlikely that these types of inflow will remain at recent levels indefinitely."

Mr Congdon says that the current pattern of investment flows is supporting the pound and financing imports of goods and services and the outflow of investment from the UK.

However, he warns that if hot money inflows were to become hot money outflows, the pound would come under downward pressure on the foreign exchanges.

He says: "It is not going too far to say that the UK's balance of payments and the sterling exchange rate, have

become dependent on continued substantial inflows of hot money."

The paper estimates the amount of financing needed to cover the current account deficit and capital outflows in the 12 months to June was between £2.2bn and £2.3bn. During this period, the UK is estimated to have had a current account deficit of about £2.8bn.

To balance, this has to be matched by similar-sized inflows of capital from overseas investors. Mr Congdon says official data is unsatisfactory but makes estimates for three main types of investment.

Portfolio investment in Government securities is estimated

to have been about £2.5bn to £3bn.

Inflow via banks and building societies is estimated to have been about £1.1bn and portfolio investment in private sector instruments, such as equities, about £9.5bn to £11bn.

Mr Congdon says the pattern of portfolio investment inflows, excluding government securities, in the year to June was in "stark contrast" to the early 1980s. Then, the UK made large net portfolio investments in foreign stockmarkets.

It remains to be seen whether the UK will revert to its traditional status as a substantial portfolio investor abroad but there is no doubt that the inflows of the last year are unprecedented."

## CBI/FT DISTRIBUTIVE TRADES SURVEY

# Retail sales growth beats expectations

By Ralph Atkins, Economics Staff

RETAIL sales growth in July beat expectations and retailers are more optimistic about sales in August than for any month since December 1985.

The Confederation of British Industry/Financial Times distributive trades survey, published today, shows 68 per cent of retailers said sales volumes in July were higher than in July 1987. Only 10 per cent reported falls.

Of the 288 retailers questioned, 55 per cent said they expected sales in August to be higher than the same month a year earlier. Just 4 per cent anticipated falls.

This meant the balance of those expecting rises, minus those expecting falls was plus 61 per cent - higher than in any month since December 1985. It compared with a balance of plus 57 per cent expected increases in July.

The survey suggests there has been no reduction in the exceptional strength of retail sales growth since the beginning of last year. However, the CBI said there was no sign of a significant acceleration in the rate of increase.

Mr John Caff, economic director at the CBI, said: "The greater purchasing power of consumers continues to be the main factor behind the recent improvement in business, as real personal disposable income is boosted by the Budget tax changes."

Strength in retail sales has worried some City analysts who fear the exceptional growth is increasing inflationary pressures and sucking in imports.

Department of Trade and Industry figures for retail sales volumes in July, to be published later today, are expected to show further strong increases into the second half of the year.

The CBI/FT survey shows the balance of retailers reporting increased sales in July, compared with the same month a year before, was plus 58 per cent. This was unchanged from June but otherwise was the highest since January.

Sales for July were thought by retailers to be not as good as in June but an improvement is expected in August. For both July and August the sectors most positive about sales growth were grocers and retailers of household textiles, furniture and carpets.

A balance of plus 36 per cent of retailers reported an increase in orders placed with suppliers compared with July 1987. This was greater than expected and compared with plus 31 per cent in June.

In motor trading, a balance of plus 26 per cent reported sales higher in July than in the same month a year earlier.

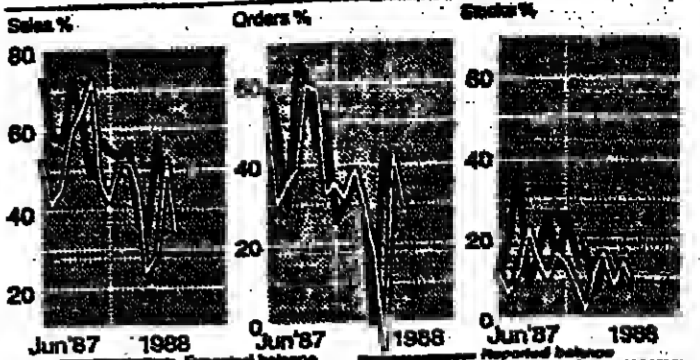
However, the 55 motor traders questioned were extremely optimistic about sales in August. A balance of plus 75 per cent expect increases compared with last August - the highest since the survey started in July 1983.

Among wholesalers, July's growth in sales volumes was slower than expected but remained strong. A balance of plus 42 per cent reported increases compared with the same month a year before, against a balance of plus 57 per cent reporting increases in June.

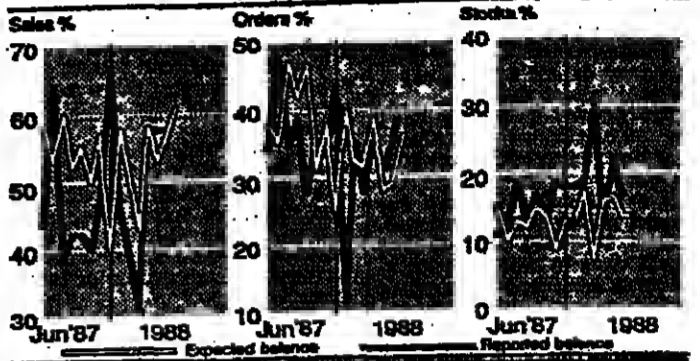
A balance of plus 94 per cent of the 164 wholesalers questioned anticipated sales increases in August. This suggests there may be a further slowing in sales growth.

Wholesalers of industrial materials and builders merchants reported the best sales increases in July.

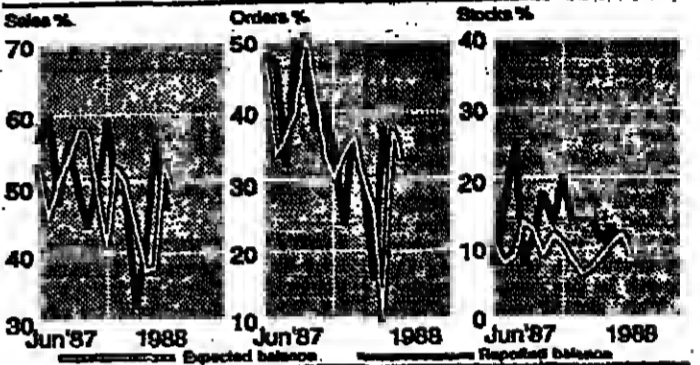
### Wholesaling



### Retailing



### Total distribution



# Value of business travel market 'to rise rapidly'

By David Churchill, Leisure Industries Correspondent

THE BUSINESS travel sector - airlines, hotels, and car and rail travel - is likely to grow rapidly in the 1990s, according to a report published today by the Economist Intelligence Unit.

It suggests the value of the market will grow from \$90bn (£17.6bn) at present to more than \$400bn by 1995.

The volume of business travel - trips involving at least a night away from home - is predicted to grow from the present 800m trips a year to 800m by 1995.

The report points out that the international hotel industry depends heavily on business travellers, who account for 85 per cent of occupancy of the world's 10.6m hotel bedrooms and provide hoteliers with \$75m in revenue.

Tokyo, at \$383 a day, is deemed the most expensive city for business travellers. London is the most popular with international executives.

International Business Travel 1988, Economist Intelligence Unit, 40 Duke Street, London, W1A 1DW; 0175.

# Tour operator plans £100 flight delay compensation

By David Churchill

HOLIDAYMAKERS who face airport delays of 12 hours or more next summer will be given extra compensation of £100 each in addition to their holiday insurance, under plans announced by Redwing Holidays, the UK's fourth largest tour operator.

Mr Vic Fatah, managing director of Redwing, which trades under the Enterprise, Sovereign and Sumner names, said: "The image of Britain's tour operators has taken a hammering this year and we think it is important to relieve

people's fears about holidays."

The Office of Fair Trading last month produced a report suggesting holidaymakers received poor services from tour operators. An earlier European Commission survey showed Britons made more complaints about package holidays than those of any other country in Europe.

Mr Fatah said this summer's delays could end the operators' price war: "Holidaymakers' overriding concern is to buy a holiday that fulfils expectations," he said.

### NOTICE OF REDEMPTION

To the Holders of

# A/S Eksportfinans

13% Sinking Fund Debentures Due 1992

CUSIP No. 282645AA8\*

NOTICE IS HEREBY GIVEN, pursuant to the provisions of the Indenture dated as of June 15, 1982, as supplemented (the "Indenture"), between A/S Eksportfinans and United States Trust Company of New York, Successor Trustee (the "Trustee"), that \$60,000,000 principal amount of A/S Eksportfinans 13% Sinking Fund Debentures Due 1992 (the "Debentures") has been selected by the Trustee for redemption on September 1, 1988 at a Redemption Price equal to 100% of the principal amount thereof in accordance with the Sinking Fund provided for by the terms of the Debentures and as specified in Section 1.203 of the Indenture. The following are the serial numbers of the Debentures which will be redeemed in whole or in part:

The certificate numbers of the Bearer Bonds in the principal amount of \$5,000,000 bearing the prefix C to be redeemed in whole:

Certificate Number	Amount Called	Certificate Number	Amount Called	Certificate Number	Amount Called	Certificate Number	Amount Called	Certificate Number	Amount Called
2001	2008	2015	2021	2023	2035	2040	2049	2058	2062
2070	2071	2082	2081	2087	2084	2072	2078	2086	2083
2100	2008	4004	4009	5938	5945	5983	7418	7423	8730
2002	2011	2016	2022	2032	2036	2042	2050	2059	2084
2007	2012	2017	2028	2034	2039	2043	2052	2060	2074
2080	2085	2091	2096	2104	2109	2117	2122	2129	2134
2141	2146	2153	2158	2165	2170	2177	2182	2189	2194
2201	2206	2213	2218	2225	2230	2237	2242	2249	2254
2261	2266	2273	2278	2285	2290	2297	2302	2309	2314
2321	2326	2333	2338	2345	2350	2357	2362	2369	2374
2381	2386	2393	2398	2405	2410	2417	2422	2429	2434
2441	2446	2453	2458	2465	2470	2477	2482	2489	2494
2501	2506	2513	2518	2525	2530	2537	2542	2549	2554
2561	2566	2573	2578	2585	2590	2597	2602	2609	2614
2621	2626	2633	2638	2645	2650	2657	2662	2669	2674
2681	2686	2693	2698	2705	2710	2717	2722	2729	2734
2741	2746	2753	2758	2765	2770	2777	2782	2789	2794
2801	2806	2813	2818	2825	2830	2837	2842	2849	2854
2861	2866	2873	2878	2885	2890	2897	2902	2909	2914
2921	2926	2933	2938	2945	2950	2957	2962	2969	2974
2981	2986	2993	2998	3005	3010	3017	3022	3029	3034
3041	3046	3053	3058	3065	3070	3077	3082	3089	3094
3101	3106	3113	3118	3125	3130	3137	3142	3149	3154
3161	3166	3173	3178	3185	3190	3197	3202	3209	3214
3221	3226	3233	3238	3245	3250	3257	3262	3269	3274
3281	3286	3293	3298	3305	3310	3317	3322	3329	3334
3341	3346	3353	3358	3365	3370	3377	3382	3389	3394
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3641	3646	3653	3658	3665	3670	3677	3682	3689	3694
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4241	4246	4253	4258	4265	4270	4277	4282	4289	4294
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4661	4666	4673	4678	4685	4690	4697	4702	4709	4714
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5441	5446	5453	5458	5465	5470	5477	5482	5489	5494
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5561	5566	5573	5578	5585	5590	5597	5602	5609	5614
5621	5626	5633	5638	5645	5650	5657	5662	5669	5674
5681	5686	5693	5698	5705	5710	5717	5722	5729	5734
5741	5746	5753	5758	5765	5770	5777	5782	5789	5794
5801	5806	5813	5818	5825	5830	5837	5842	5849	5854
5861	5866	5873							

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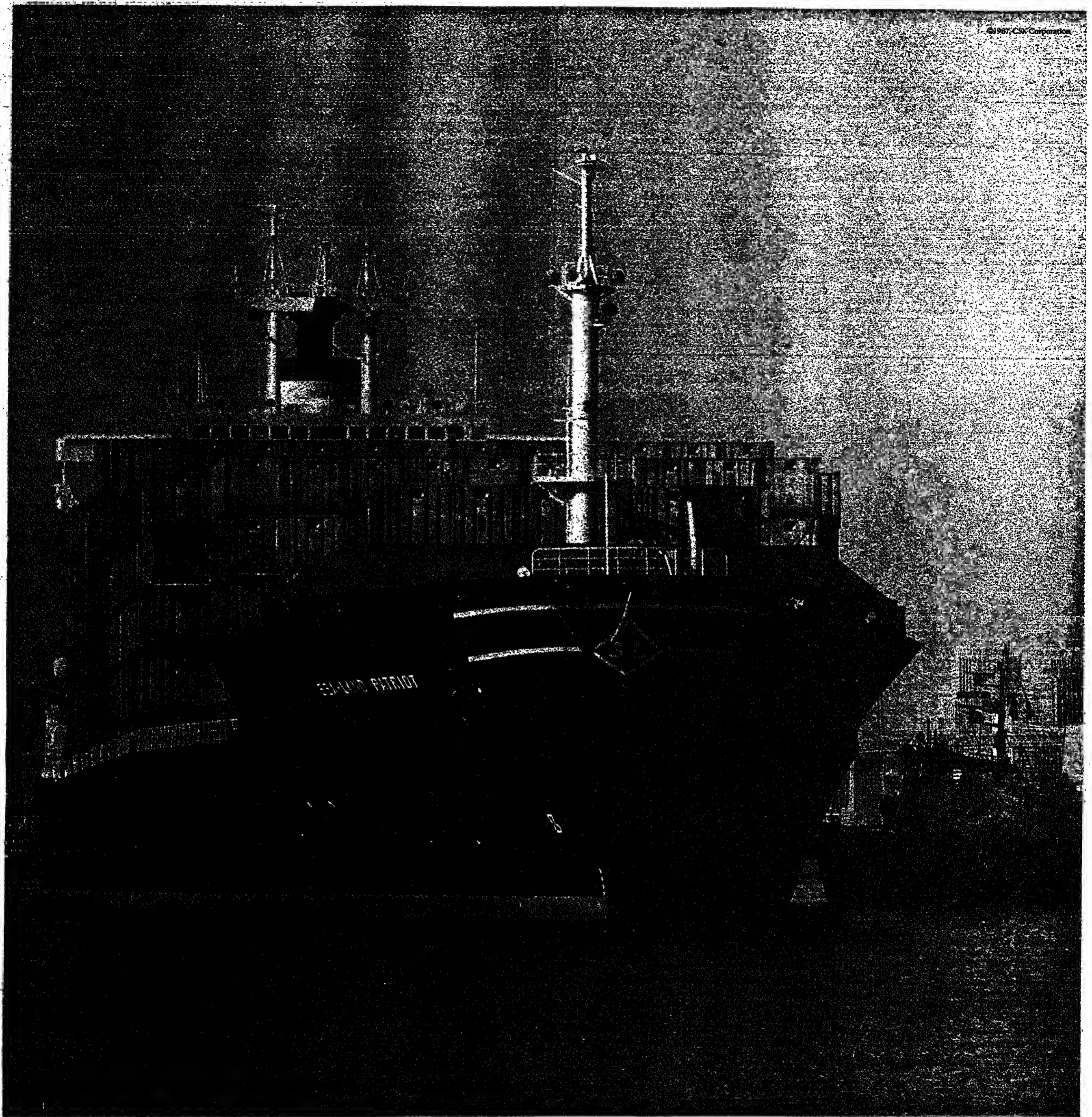
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Sea defence

RICE NORTH EAST has been awarded contracts worth over £10m. Civil engineering projects include a sea defence contract at Whitby (£2.94m) for Scarborough Borough Council...

CONSTRUCTION CONTRACTS

St Johns Wood Synagogue

Among contracts, totalling £13.5m, awarded to MOWLEM BUILDING is a £3.5m design and construct project for Abbey National Homes and the Liberal Jewish Synagogue. The joint-venture project involves the construction of a synagogue and 46, high-security, luxury flats in St Johns Wood Road, opposite Lords cricket ground. The portico and facade of the 70 year-old synagogue, both in Portland stone, will be retained. The seven-storey flats will radiate from the synagogue. Mowlem is scheduled to hand over the synagogue shell to a specialist fitting-out contractor in October 1989. The entire project is due for completion in June 1990.

Transformation project at Falmouth

Following its completion of the Lands End Heritage development last month, E. THOMAS CONSTRUCTION, the West Country division of Mowlem Regional Construction, has signed a second contract with Land Leisure - the Fort Penennis Development Scheme.

The project will result in the transformation of a derelict waterside site at Bar Road, Falmouth, into a residential, shopping and recreational area. The civil engineering works contract is valued at £4.5m. It involves construction of 450 metres of sheet-piled sea wall, an impounded marina basin and a hydraulically operated half-tide lock gate. A further 250 metres of sheet-piled wall will enable 1.3 hectares of land to be reclaimed from the sea for the house-building contracts.

Maritime experience

Additional areas are being reclaimed for a maritime leisure experience centre and a slipway for the RNL A. A total of 3,422 sheet piles are to be driven with a total weight of 1,856 tonnes.

Building includes 213 luxury homes, a harbourside promenade, shops, restaurants, a maritime experience centre and service roads, parking, and landscaping. All the residential units will have concrete piled foundations and will be of traditional construction with a mixture of external finishes. The civil engineering works have started and are due for completion by the end of the year. The main building work commences this month, and is scheduled for a phased completion over a period of 2 1/2 years.

Moat Houses projects

WEBB (CONSTRUCTION), Romford, has received orders worth £8m for two projects from Queens Moat Houses. The major scheme, in Romford town centre, is a £6.6m office block of 100,000 sq ft over five stories on a design and build contract. The block consists of

a steel-framed metal and concrete deck with traditional facing brick and curtain wall cladding. The second scheme is for a 28-bedroom extension, and alterations and extension to conference facilities at Leicestershire Moat House Hotel.

Spread of work for Douglas

R. M. DOUGLAS CONSTRUCTION has been awarded contracts totalling over £23m. At Leamington Spa work has begun on a superstore. The contract, valued at £7.27m, includes construction of the store, petrol filling station, coffee shop, ancillary retail units and external works.

Standard Life Assurance has awarded Douglas a £2.25m contract to fit out high technology shells at Oxlby Pavilions, Watford.

Following the phase I building of a shell warehouse for Tesco in Didcot, Oxfordshire, Douglas has won a £8.5m contract for phase II, to fit out the temperature-controlled composite distribution centre. The 2,000 sq metre building will be divided into sections of frozen, cold chill, chill and ambient areas. There is a plant room to contain the refrigerator equip-

ment, as well as office facilities. Following projects for exhibition consultants, Imagination, Douglas has won two further contracts totalling £5.1m in Northampton and London. Douglas also continues its relationship with MacDonald's Hamburgers with two contracts totalling £2m to build MacDonald's Freestander restaurants at Aylesbury and West Thurrock. Construction, which in both cases consists of a simple steel frames and brick and curtain cladding, will be completed by December.



Three listed cottages at the former Bryant & May match factory in Fairfield Road, Bow, London, are being converted by R. MANSELL into ten flats, intended mainly for first-time buyers. Another three cottages, still occupied, will be refurbished. The project is part of a £30m re-development scheme for the factory site, which has lain vacant since closing in the early 1970s. To be called Bow Quarter, there will be leisure and retail facilities, and more than 600 homes. The cottages, built in the 1870s, are being gutted, then converted into flats - eight one-bedroom, one two-bedroom, and one studio. External architectural features will be retained. Work has started on the £450,000 contract for Kentish Homes, and is due to be completed in April 1989.

Company Notices

Nordisk Gentofte A/S The Annual General Meeting of the Company will be held on Tuesday, the 23rd August, 1988 at 4.00 p.m. at the Auditorium, 6, Niels Steensensvej, Gentofte, Denmark. AGENDA: 1) Presentation of the annual accounts, including profit and loss account and balance sheet...

Legal Notices

IN THE CHESHAMBOURGH COUNTY COURT in Bankruptcy No 39 of 1988 Re THOMAS JOHN RAE We FOX MILTON & COMPANY LIMITED registered office - 71/73 Carter Lane, London EC4V 5EG Petition the Court that a Bankruptcy Order may be made against THOMAS JOHN RAE...

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DIARY DATES

FINANCIAL BOARD MEETINGS TODAY

Bank of America, Barclays, British American, CIBC, Citicorp, Deutsche Bank, First National, HSBC, Industrial Bank of Japan, London & Lancashire, National Westminster, Royal Bank of Canada, Standard Chartered, Swiss Bank Corp., Union Bank, etc.

Trade Fairs and Exhibitions: UK

Current: Gifts Fair (until August 15) (0895 372010) Hove Town Hall August 18-19 Home Entertainment Dealer Show - HEDS (021-780 4172) NEC, Birmingham August 18-21 Antiques Fair (0444 459317) Kensington Town Hall August 21-24 International Jewellery Exhibition (0885 20721) Business Design Centre August 27-29 Town and Country Festival (0203 695968) Keston

Overseas Exhibitions

August 18-19 Fashion Week (01-987 8050) Tel-Aviv August 22-24 Nordic Fashion Fair (01-498 1851) Helsinki August 25-28 Office Equipment, Technology and Computer Systems Exhibition (0494 729405) Singapore August 30-September 1 Traffic Engineering and Road Safety Exhibition - TRAFFEX (01-686 3855) Canberra September 1-6 International Machinery, Factory Automation & Electronic Technical Exhibition - MECT-ASIA (0494 729405) Taipei September 4-10 International Autumn Fair (0575 392222) Leipzig September 14-15 Employment Research Unit annual conference - New forms of ownership - management and employment (0223-43236) Cardiff Business School September 16 The Industrial Society: Harmonisation - A one-day seminar to examine the principles and practice of harmonising terms and conditions of employment (01-889 4300) 3 Carlton House Terrace, London SW1 September 16 Hawkestone: Insurance aspects of property investment and development (01-824 8257) London Press Centre September 21-23 International Chamber of Commerce: Investing for growth - opportunities in worldwide deregulation trends (Paris (1) 45.62.34.55) Istanbul September 22-23 The Institute of Chartered Accountants: The 1988 Industrial Tax Conference (0908 668833) Holiday Inn, Leicester

Business and Management Conferences

August 30, 31 and September 1 Financial Times Conference: Commercial aviation to the end of the century - Expansion in an era of accelerating change (01-925 2323) Hotel Inter-Continental, London September 8-9 CBI: Increasing your sales to the Ministry of Defence (01-379 7400) Centre Point, London WC1 September 9-9 The Industrial Society: Industrial relations for new managers (01-262 2401) Central London September 9 Channel Tunnel Conference: Channel Tunnel - makes it your business (0904 653655) Viking Hotel, York September 12 CBI/Marketing Society: Mastering the market (01-379 7400) Centre Point, London WC1 September 13 CBI Conferences: European standards - Who needs them? (01-379 7400) Centre Point, London WC1

FINANCIAL TIMES CONFERENCES

COMMERCIAL AVIATION TO THE END OF THE CENTURY London, 30, 31 August & 1 September 1988 The accelerating pace of expansion in commercial aviation worldwide and the impact this will have on all the existing facilities for the rest of this century will be the subject of the Financial Times latest conference to be held in London on 30, 31 August & 1 September, 1988 just before the Farnborough International Air Show. Speakers will include Mr Peter Sutherland, Sir Colin Marshall, Mr Thomas Plaskett, Dr Günter Esler, Mr John Hayhurst, Mr Jim Worsham, Mr Stuart Iddles, Mr Sydney Gillibrand, Mr Selwyn Berson and Mr Lee Kapor. The guest lunch speakers will be The Lord Brabazon of Tara, Parliamentary Under Secretary of State for Transport and Mr Matthew Scrozza, Assistant Secretary for Policy and International Affairs, US Department of Transportation. THE FT CITY SEMINAR London 19, 20 & 21 September 1988 The seventh FT intensive seminar to be held once again at the Plaisters Hall, the highly successful venue for this prestigious training programme, presents a valuable opportunity for young executives, trainees and others to examine the structure and functions of the main institutions and markets of the City of London. A high calibre panel of speakers traditionally takes part in this Seminar and September's line up include Philip Warland of the Bank of England, Christopher Johnson of Lloyds Bank Plc, Ian Morgan of Midland Bank plc, John Atkin of Citibank NA, David Surratt of Morgan Grenfell & Co Limited, Francesca Edwards of J.P. Morgan Securities Ltd, David Malcolm of Royal Insurance Plc, Peter Rawlins of R W Sturge & Co, The Rt Hon Sir Edward du Cam, KBE of Lough Plc, The Rt Hon John Smith, QC, MP, Shadow Chancellor of the Exchequer and John Pledger of the Financial Times. Chaired by Marc Lee, the FT Conference Adviser, the seminar presents numerous opportunities for those who attend to question speakers and debate with them. Attendance has extended internationally over the years, and the programme is most suitable for foreign participants who wish to make as comprehensive a study of the City as possible in three days. ELECTRONIC FINANCIAL SERVICES London, 20 & 21 October 1988 The FT sixth conference on Electronic Financial Services will look at the way new technology is being used to extend retail financial services for both traditional and new financial services providers. It will examine the need to develop systems for more effective management reporting and systems which treat customers as individuals rather than as a series of account numbers. This two-day conference will be chaired by Mr Jacques De Keyser and Mr Gene Lockhart and brings together a distinguished panel of speakers to lead the debate. All enquiries should be addressed to: The Financial Times Conference Organisation, 2nd Floor, 126 Jermyn Street, London SW1Y 4UJ Tel: 01-925 2323 (24-hour answering service) Telex: 27347 FT CONF G Fax: 01-925 2125

ARTS

ARCHITECTURE

Bright ideas for the new metropolis

Exhibitions about ideas are the best ones. *Metropolis - New British Architecture and the City* - is full of ideas and is thoughtful as well as amusing. The show is at the Institute of Contemporary Arts in London and is part of a season of architecture and design sponsored by Chair Design Associates which runs until the beginning of October.

The ICA has commissioned six British architects to look at the design problems of the modern city. All of them are known for their innovative work and most are more famous overseas than at home. The brief was broad, asking designers to consider the impact of the less tangible developments in city life, such as information systems, communications, and the computer. These newer elements have their influence, but I think it is also fair to look to architects and designers for tangible visions - both to inspire and to warn us about the future shape of city life.

Nigel Coates and Doug Branson are the brightest and best architects in the exhibition. They have called their submission *The City in Motion*, and it is a consideration of imaginative possibilities for the huge Kings Cross transport interchange. Nigel Coates has, until now, been best known for his interiors, mostly carried out in Japan, and for his promotion of the idea of a more narrative approach to architecture. He is in my view, one of the most talented designers around and - unusually for an architect - he actively encourages younger British artists to contribute to his schemes. He has almost Baroque tastes laced with more than a dash of Gaudi. It is strong, most and sometimes appears almost chaotic, but it is also rich and powerful.

Because Kings Cross is likely to be one of the major Channel Tunnel terminals, this scheme highlights the European possibilities. Coates christens the place "Eurofields" and suggests a "blistering electronic countryside" surrounding a shopping boulevard with commercial embassies from all the European countries. To turn St Pancras Hotel into a large duty-free Harrods seems an entirely logical piece of lateral thinking. At the northern edge of the site-a-Gothic canyon, looks over a landscape composed of butter mountains and wine lakes. I am sure that the developers of Kings Cross should be including some of Nigel Coates's ideas, and the clash of his baroque thinking with the smoothness of Norman Foster's plan can only be beneficial.

Ron Arad, like Coates, is from London's Architectural Association and has just won the prestigious commission to design the interior of the Tel Aviv Opera House. He runs a design office and workshop called One OZ. His entry to this exhibition is the most creative and interesting: a sculptural welded metal staircase stands in front of an illuminated wall; it says nothing about metropolitan possibilities but quite a lot about designer indulgence.

Another design unit that has grown out of architecture is Future Systems, a firm based in London and Los Angeles. They have produced a superbly engineered landmark: a tower for the second millennium to stand in the centre of Hyde



A landmark tower for the second millennium, designed by Future Systems

Parc. It looks like a huge giraffe standing some 500 metres high. At the top is an observation platform with restaurants and bars. Future Systems is a think tank for the application of design to industry and science, and this project is entirely feasible - indeed British Telecom is already interested.

Daniel Well and Gerald Taylor are product designers from the Royal College of Art stable. One of their best known products is the bag radio - a clear, plastic bag that exposes all the working parts of a transistor. They feel that the motor car is the one permanent problem for any city like London. As so many of these metal beasts are simply tethered for a large part of their lives in a completely useless fashion outside the house, why not wire them up and turn them into spare rooms? A planner's nightmare and probably a passport to the shanty town, but undoubtedly thought provoking. The drawings of the sewing machine, the gym and the DIY equipment all sitting in the car do have an appeal, especially to anyone who has to operate in a confined urban space.

Another kind of interior is the wall of cupboards designed by John Pawson and Claudio Silvestrin. They feel that we lack free space in the city and so have produced a white wall of doors - open each one and there is a black and white photograph of one of the essentials of life. This is a contrived, conceptual exhibit that overstates the obvious. We know that we all need space. The point is that we all need different

spaces, and some lives are more cluttered than others. The intimacy of this white box is chilling.

There is nothing white about the work of the architect Zaha Hadid, whose colourful three dimensional construction is like being inside a Russian Constructivist painting. Her work is always the same - the flashing planes, the vivid colours, the sharp angles. She is really a derivative painter and this work shows the limits of an endlessly repeated single idea.

The ICA exhibition will end in a conference which looks like a predictable mixture of Anglo-American architectural gurus. The danger of such events and of exhibitions such as *Metropolis* is that the ideas are simply chewed over by an incoherent group of professionalists. It is developers and the public who should be conferring with architects and designers to ensure that the building boom does not just continue to erect the ideas of the 1980s.

At the Royal Academy from Tuesday August 16 until the end of the month 100 contemporary architectural models are on show. Everyone likes models, and these range from dolls houses to the Great Model of St Paul's. This is a free summer treat promoted by the Association of Consultant Architects and is a tribute to the skills of the model maker as well as an intriguing architectural experience.

Colin Amery

Man of the Moment

STEPHEN JOSEPH THEATRE IN THE ROUND, SCARBOROUGH

It is all too likely that a convicted thief should endear himself to the great British public, all too feasible that he should become a media pundit, a cross between Parkinson and Jimmy Saville; all too probable that he should live in luxury, tended by slave managers and courted by ambitious TV directors. And all too consistent that a bright BBC lady should arrange a meeting after 14 years between this ex-thief and the wet little bank clerk who "had a go" causing the robber's shotgun to blast the face of a pretty girl hostage.

This is Alan Ayckbourn territory, bristling with such familiar landmarks as social embarrassment, bullying brutality confronting ineffectual decency, the hilariously inadequate language of the English under emotional pressure, and sudden death. Not since *Way Upstream* has the vision of society been blacker, the humour more sardonic (*A Small Family Business* is a cheerful farce in comparison). Not for some time has Ayckbourn produced such a compact, tightly constructed play. Never has he looked more like the Ben Jonson of the Welfare State.

Ex-criminal tally star Vic is depicted by Peter Laird with the appearance of Ronnie

Biggs, the affable media cockney of Derek Jameson (well, almost) and the ingratiating bombast of Bruce Forsyth. It soon emerges that he is a viciously unkind autocrat with a tendency to sanctimonious self-justification. Speaking of his crime he piously clasps his hands in prayer: "A miracle she didn't lose an eye - I thank God for that." A pause. "She did lose an ear, though," avers the wimpish bank-clerk with rabid earnestness. "An ear's not the same as an eye," snaps Vic. The house rocks with laughter until suddenly realising the cruelty that Ayckbourn has insidiously persuaded us to accept.

In a masterly unravelling of the plot the author leads us to chortle at the descriptions of the little man's dithering, a wife with her dislike of going out and being stared at; a running gag until we casually learn she is the mutilated hostage. Ayckbourn's comedy increasingly manages to freeze the smile on our lips, doffing the lecturer's cap the clown reveals horns. To the play's basic paradox - that a Press-acclaimed hero can be forgotten and his life ruined while the villain achieves fame and wealth - is added the irony that virtue is unattractively embodied by the chinless

solemnity of suburban weediness. This is brilliantly personified by Jon Strickland who bridges, sews and flinches fashionably enough, what, we slowly realise, is the admirable philosophy of a good man. The violent climax reveals Ayckbourn as an almost religious painter of cruelty versus innocence.

He directs his 35th play impeccably on Michael Holt's sunny villa set, complete with crucial swimming pool, and produces beautiful performances. Lesley Meade, riddled with guilt at her husband's misdeeds, conveys inner agony through deathly, smiling politeness and faltering euphemisms; Simon Chandler, the star's languidly fastidious agent, has never been better; though not quite in focus as a TV narrator, Lynette Edwards is spot-on when bossing the camera-crew or patronising her subject.

The evening belongs to Mr Strickland's stiff Lowry-figure, the silted little man with no strong views on anything except perhaps evil. "It's often hard to recognise but there's a lot of it about." There is, there is; and Alan Ayckbourn is the joking Manichean prophet of the evil in all of us.

Martin Hoyle



Peter Laird in Man Of The Moment

Where Elvis meets the Presbyterian Ladies College

Michael Coveney finds himself outnumbered on the opening weekend of the Edinburgh Festival fringe

In weather conditions of elemental volatility - blue skies, squalls of wind, sudden showers - the 42nd Edinburgh Festival swung into action over the weekend with African drummers in Princes Street and a cavalcade that included representations from the Elvis Presley Fan Club and the Presbyterian Ladies College of Perth, Australia.

Crowds seem to be bigger than ever. Traffic is moving so slowly through the West End that drivers and passengers can be conveniently leaded by fringe publicists as they swing round into the Lothian Road.

The official theatre festival since tonight, but the fringe is already offering a cornucopia of activity. 473 companies have already taken nearly £160,000 at the Box Office, £30,000 more than at the same time last year.

Crowds flock to one-man shows. I prefer it when shows flock to one-man audiences.

This happened late on Saturday night as the Festival Theatre of Southern California launched its thirteenth Edinburgh season out in darkest, rainswept Morningside, and your correspondent assumed the awesome theatrical responsibility of lone witness and judge, a role I quite like.

More, it would have gained while, the mecca of new writing remains the Traverse, no longer a club and just celebrating its silver anniversary, marked with a splendidly incident and admirably researched history by Joyce McMillan. In her final season as artistic director, Jenny Killick has assembled an entire programme of local and international fare.

Alexander Gelman (b. 1938) is one of Mr Gorshachev's favourite dramatists. *A Man With Connections* was written in 1982 but is clearly a comedy for the age of glasnost and perestroika. It was first performed here at BBC Radio in this translation by Stephen

Mulrine, with Bill Paterson as Andrei Gladkov, the corrupt construction site manager whose carelessness has caused the accident in which his son lost both his hands.

Repeating the role, Paterson goes to the very edge of black humourousness, energetically devious and calculating in a way that is not quite so much, rather like a steady comedian. Bureaucratic shenanigans are intricately entwined with the domestic unease between the Gladkovs (Marty Cruickshank is the stone-faced, stone-walling wife). After ten months in hospital, their son is coming home. The marriage is on the rocks.

As on the radio, the piece becomes inert and contrived after ten minutes, and Jenny Killick's production is unable to prevent the comedy flagging. The wife is badly underwritten. But any domestic comedy of contemporary Soviet life must be of interest, and Mulrine's unapologetically Scots

rendering is lively enough.

Simon Donald has been a notable actor in the Killick regime. His new play, *Prickly Heat* directed by Killick, is a strange but compulsive heat-crazed idyll purportedly set in Scotland. Antonio Lagarto's set uses gauze, tarpaulin, an onstage shower and crucial fridge to convey this unlikely meeting of Tennessee Williams and Ian Haggie.

Four loveless characters - a boxer, his trainer, a runaway country girl and a peculiar landlord (who keeps beers and frocks in the fridge) - jostle for position and squirt milk, oil and water over each other. The piece has been much worked on since its June premiere and is brilliantly acted by Robert McIntosh, Tom Mannion and Hillary McLean. The author himself plays the emaciated trainer in an over-small suit, sandals and luminous green socks. I really enjoyed this one. *Prickly Heat* and *A Man With Connections* are in the

upstairs Traverse. The downstairs, smaller auditorium is now an equal partner at festival time. Peter Jukes's *Shadowing the Conqueror*, smartly directed by Simon Unwin, is a repetitive encounter between Alexander the Great (Matthew Scurlfield) on the eve of his last campaign and a contemporary photographer (Stolhan Redmond) on a "Portraits of the Powerful" commission. Nothing much happens at great length. Some of the writing is sharp, but most of the ideas banal, rooted in neatly antithetical concepts of antagonism and versions of reality. Alexander died, aged 32, in Babylon. Mr Scurlfield expires in a mountain pass, well short of China, having opined that "corpses are the natural subject of photography." Miss Redmond, a fine actress, cannot snap her way out of this.

*The Traverse Theatre Story* by Joyce McMillan, with a chronology compiled by John Carnegie. Methuen, £5.95 pounds.

Australian Youth Orchestra

ALBERT HALL

At Saturday's Prom these young Australians continued the East European theme and also showed what first-rate new talent Australian orchestras have at their disposal. (Their string players, predominantly female, lent no support to the old idea that women's playing is short on weight.) As conductor they had Sir Charles Mackerras, another Australian, and another - Leslie Howard - as soloist in a wretched piano concerto by the Australian Ross Edwards.

Described by its composer as "exuberant" and "extravert" (it proved to be winsomely naive, wittily repetitive and scored as if for a low-budget radio band). The "minimalism" which presumably inspired it is too crudely compromised to make any effect. Being told it is untypical of a composer who has done better things, I shall not abuse it further.

Jandek's epic *Taras Bulba* deserves more exact shaping

and colour, and got it. As a candidly historic but heart-breaking piece, it would have gained still more from extra touches of flexibility, and a sharper focus for the great emotive cadences in the peroration - but it went quite well enough to suggest that we lose by our London orchestras' reluctance to programme the work.

Better still was the *Symphonic fantasia*, which enjoyed better playing - in terms of ensemble, and notably from all the winds - than Berlioz could ever have expected. Mackerras honoured the repeats scrupulously (but never mechanically), rendered the drama precise, and built the finale to a rude towering height. It was a pleasure to hear. One wondered whether keen young players may not have a decisive advantage when it comes to capturing Berlioz's specially live, nervy edge.

David Murray

Sphinx

FESTIVAL HALL

This tide of ballet that has flooded London this summer is really from extra touches of flexibility, and a sharper focus for the great emotive cadences in the peroration - but it went quite well enough to suggest that we lose by our London orchestras' reluctance to programme the work.

Given the difficulties for European dancers in dealing with the issue with too many clever ideas, Craig Randolph and Darryl Norton gave sincere, well-focused performances as the hero and his shadow, and I was impressed by James Meeke's unforced account of the Wayfarer songs. Balanchine was represented

come off best. Tetley's ballet was well cast: Susan Hogart's beauty and the delicate way she suggests the Sphinx's sensuality and sexual longings make her a fine incumbent of the role. This is a subtly voluptuous sphinx, and Paul Chalmer's elegant Oedipus, very controlled in manner, is an ideal foil. The piece is too long, but with the unified style to hold the text together. *Apollo* was like an illustrated tour round a masterpiece. I liked best two of the Symphony's cavaliers - Patrick Armand and Paul Chalmer, worthy of New York.

And as a *bonne-bouche*, Natalya Makarova and Peter Breuer brought Tatjana's dreams to ecstatic life in the letter duet from Cranko's *Oregrin*. Flung and caught in Mr Breuer's arms, Makarova spoke Pushkin's lines to us, and we understood Tatjana's soul. Great art.

Clement Crisp

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ARTS GUIDE August 12-18

OPERA AND BALLET

London Moscow Classical Ballet in a short season with a new Swan Lake, at the Business Design Centre, Islington.

Verona Arena Di Verona. Zorba the Greek, a ballet by Lucia Massine to Theodorakis, conducted by the composer. Also, *Alfa*, with Grace Bumbury as Amneris, Turandot with Ghena Dimitrova alternating with Eva Martin, and Ponchielli's *La Gioconda*, conducted by Christian Bado, with Bruna Bagnoni and Giovanna Casolla. (588517).

New York New York City Opera (State Theatre, Lincoln Center). The week features Lotfi Mansouri's new production of *Il Barbiere di Siviglia*, conducted by Sergio Commissioni, and the season's new production of *Rigoletto*, conducted by Elio Boncompagni and devised and directed by Tito Capobianco. (495 0600). Lincoln Center Out-of-Doors Festival, the month-long and usually day-long free performances in the plazas and Dumas Park, Lincoln Center, through the School of Hard Knocks, a dance, music and performance art piece (Tue 8pm); Fresh Stuff, fellowship winners from the New York Festival (Tue 8pm); and *Yane and Le Baton Magique* from Paris (Thur 8pm). (877 2011).

Washington Wolf Trap Festival. Wolf Trap Opera Company, using Maurice Sendak's whimsical sets from Glyndebourne, perform *The Love of Three Oranges* (Thur). (482 0200).

Tokyo Chang Mi Dance Company from South Korea. Sunshine Theatre, Ikebukuro (Tue-Thur). (987 4868). Teshigahara Saburo (avant garde dancer). Outdoor Theatre, Kabukicho (Tue Wed). (987 4868). Rudolf Nureyev and dancers from the Paris Opera Ballet. Kossienkoin Hall (Tue-Fri). (950 4686).

MUSIC

London Ulster Orchestra, conducted by Vernon Handley, with Ernest Kovacic (violin), Einar Sibelius and Gerald Barry first performance. Royal Albert Hall (Mon). City of London Sinfonia, conducted by Richard Hickox, with Heather Harper (soprano) and Wayne Marshall (organ). Britten, Bridge, Michael Berkeley, Provens and Bizet. Royal Albert Hall (Tue). BBC Symphony Orchestra and Chorus and Singers, conducted

Keeping Tom Nice

ALMEIDA

The second play of the RSC's season in its Islington outpost is a new work of power and promise.

Peter Nichols' *Joe Egg* remains the prime example of the wry, self-lacerating comedy of affliction, the handbook of laughter-as-survival. Initially Lucy Gannon's play about grunting, writhing Tom, coming up to his 25th birthday and "spastic, epileptic and incontinent", treats the same path.

His mother Winnie keeps everything immaculate in house and garden, "ruthlessly slaughtering each weed"; and Shirley King, so good as another acquiescent, lacquered suburbanite in the RSC's *Tyrannation*, is beautifully complacent in the role. But, none so bland as those who will not see, she disregards her husband's anguished confession of violence towards their son, and is unaware of the "bright and breezy tortures" she herself inflicts.

Two scenes in Bill Buffery's simple staging (a green carpet in Louise Belson's set, some pieces of furniture including bed and wheelchair arranged by the cast) may shock. First when his sister (Henrietta Bess), harrowed by the lack of parental love for Tom and conscious that he is a man "in working order", attempts sexual arousal in desperate con-

passion. The second is when the father Doug (Richard Conway) beats him in helpless rage and guilt with the cry: "See what you've done to me!"

The father's character is the most complex, cracking under the weight of a never-changing burden as he sees the rest of his life as emptying Tom's urine-bag, washing and feeding him; appalled by his anger at the unresponsive victim, and left with only one way out when a social worker voices suspicions.

The terrible family mixture of resentment - the father's against his "useless, senseless, stinking" son, the daughter's against her mother's "bright and cheerful patent leather court-shoe Marks and Spencer voice" - duty and love is caught in writing with its quota of laughs.

Faults include a veer towards poetry and a tendency to over-literacy. Performances are excellent, including Mike Dowling's well-meaning awkwardness as the social worker - no caricature here - and the unnerving accuracy of Linus Roche's jerking, yelling protagonist. "When you've got a handicapped child the whole family's handicapped" is a grim message when the suffering is portrayed as useless.

Martin Hoyle

# FINANCIAL TIMES

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Monday August 15 1988

## Fog over the Atlantic

RECENT exchanges on trade policy between the US and the European Community have resounded to the noise of pots calling kettles black, as each has competed to accuse the other of veering towards protectionism. The shrill rhetoric is partly tactical manoeuvring, but it also reflects dangerous mutual uncertainty about the other side's ultimate intentions.

Europe's biggest fears about the new US trade bill are less about its specific provisions than about how a future President might choose - or be obliged - to apply them. The Americans are worried that the EC's own interests unduly antagonise the US, which accounts for more than a fifth of its exports to the rest of the world and some \$160bn of EC direct investments.

handle these questions. It also needs to establish coherent working principles for its future trade relations with the rest of the world. As it does so, it is to be hoped that it will reach some conclusions which will restrain its protectionist instincts.

One should be that using the single market as a bridgehead to extract concessions from other countries could seriously weaken the world trading system. If there is any case at all for "reciprocity", it should be argued in the General Agreement on Tariffs and Trade, not imposed bilaterally. Another is that it is against the EC's own interests unduly to antagonise the US, which accounts for more than a fifth of its exports to the rest of the world and some \$160bn of EC direct investments.

Exaggerated fears  
US fears on this score may, in any case, be exaggerated. If a "fortress Europe" is under construction, the ramparts are likely to be built much higher to the east than to the west. The thrust of tougher EC trade disciplines, notably in the field of dumping, has been directed overwhelmingly at Japan and east Asia, which many European industries fear will pose a much fiercer competitive threat than US companies after 1992.

Indeed, American companies such as Ford and General Motors, which have extensive operations in Europe, have openly urged the EC to keep up the pressure on Japan over its exports and local investments. For them, far Eastern competition appears a much keener cause for concern than any risk that the Community might enact an anti-American trade stance.

The central point, however, is that, as the two largest international trade blocs, the US and EC set standards for the rest of the world. Now that the American trade bill has been passed by Congress the Community is under an even greater obligation to act responsibly by eschewing protectionism. Failure to do so could not only jeopardise the Gatt Uruguay round, but set the entire world trading system on a downward slide.

## Tighter rules for British Gas

THE PORTFOLIO report by the Monopolies Commission on British Gas should give the Thatcher Government a spur to correct several important mistakes which it made when the corporation was privatised a year and a half ago.

Many critics at that time argued that ministers gave inadequate thought to ways of promoting competition and to the provision of thorough and effective regulation where this was not possible.

The licence which allows British Gas to operate as a monopoly under the Gas Act reflected the company's claim that in the industrial sector regulation was unnecessary because of competition from other fuels. Yet within a few months of its flotation the corporation had joined battle with one of its major customers, Sheffield Forgemasters, which did not have an alternative supply of energy and alleged that it was the victim of discriminatory pricing.

Market power  
The Office of Fair Trading judged that the case raised important enough general issues to be referred to the Monopolies Commission. The obvious question raised by the reference was whether British Gas was abusing its market power in the industrial market or in a part of it to make monopoly profits. This would have been easy to answer if the company had been required to keep separate accounts for the regulated and unregulated parts of its gas business. However, Condition 3 of its licence permitted the company to aggregate profits from its captive domestic customers with those from the industrial market.

This was unsatisfactory even on the assumption that competitive disciplines in the industrial sector were adequate. Now it appears that separate accounts are needed just to test the assumption of competitiveness. After some resistance British Gas is now providing data to the Office of Gas Supply (Ofgas) from which this separate allocation of profits can be calculated.

The more important moderating force, however, should be competition. One proposal put

## Stewart Fleming reports on the campaign prospects of Vice President George Bush as the Republican convention opens in New Orleans

# Leaving a footprint in the sand

New Orleans, the "Queen City" of a state whose exotic civic culture has produced such extravagant populist politicians as Governor Huey Long, the "Louisiana Kingfish" assassinated in 1935, will have to settle this week for plainer politics - a Republican National Convention which will choose as the party's presidential candidate George Herbert Walker Bush, a privileged New England Yankee without a populist bone in his body.

So concerned are Mr Bush's political advisers about their candidate's lack of pizzazz that they have delayed the announcement of his vice-presidential running mate until this week to provide the television networks with a hit of suspense.

They are also making sure that in New Orleans Mr Bush will not have to labour under the shadow of the larger than life leader he is trying to replace, President Ronald Reagan. Mr Reagan will only meet his Vice President for a few moments when they meet across tomorrow at the New Orleans airport as the President leaves the city and Mr Bush arrives.

As the nominating convention opens today Republicans, and Mr Bush, may be feeling a little bit happier than they were three weeks ago when they were the Vice President's rival Governor Michael Dukakis of Massachusetts emerge triumphant from the Democrats' convention in Atlanta.

Mr Bush's speechwriters and advisers are confident that they can contrive a similarly impressive spectacle this week in New Orleans. Their candidate seems to have been gaining in self confidence and has begun to chip away at the impressive 17 point lead in the polls which Mr Dukakis built up by the end of his convention.

A successful televised convention normally gives a candidate a boost in popularity. So if his convention managers achieve their aim, Mr Bush will go into the campaign in September neck and neck with Mr Dukakis, a status even his own staff were not expecting to achieve so early.

None the less, even if this week's convention does go well, a nagging uncertainty hangs over the Bush campaign. Do the past couple of weeks, during which Mr Dukakis has been ahead on the defensive, represent the beginning of a sustained comeback? Or will the recovery of the recent past, and the triumphal moments in New Orleans this week, prove to be merely a prelude to new round of public questioning?

The depth of the doubts on this issue, even amongst Mr Bush's supporters, is evident from the volume of gratuitous political advice he is getting from members of his own party. Indeed, some of his supposed political allies are willing to be quoted in public voicing judgments which, at this late stage, can do nothing to help his cause.

Since the low point at the beginning of August, a number of things have gone right for Mr Bush. One of the most significant may be the more active role Mr James Baker, the US Treasury Secretary has been playing in the campaign, culminating in the announcement two weeks ago that Mr Baker would shortly quit the treasury to become chairman of the campaign.

Mr Baker, who ran President Reagan's election campaign in 1984 and President Gerald R. Ford's in 1976, is recognised as one of Washington's shrewdest political strategists. His arrival at campaign headquarters should add strategic vision, quell internal wrangling and ensure that the campaign is quicker on its feet.

Perhaps most important is the contribution Mr Baker may be making to Mr Bush's self-confidence. The Vice

President is a man, it seems, who needs the security of close personal friendships such as those with Mr Baker and his successor at the treasury Mr Nicholas Brady.

Mr Baker is one of several friends and advisers to whom Mr Bush has been close for thirty years or so. He shrewdly took Mr Bush off to the wilderness of Wyoming on a fishing trip last month, ensuring that he was well away from the media during a Democratic convention which was devoted in large part to ridiculing and undermining him. And he is close enough to Mr Bush to give him the frank advice a presidential candidate sometimes needs.

In the past few weeks, the Bush campaign has responded to its attack on Mr Dukakis, sought to focus attention more effectively on issues which redound to Mr Bush's advantage and persuaded Mr Reagan to play a much more active role in pursuit of a Republican victory in November.

The most remarkable sign of the Bush campaign's determination to exploit to the full whatever weak-

nesses it could find in Mr Dukakis's armour came with the controversy over his health two weeks ago. In the view of the Republican political analyst Kevin Phillips, this was the most effective (if, to other observers, the least attractive) of the campaign's recent efforts.

Mr Dukakis initially refused to release medical records in order to quiet speculation that he had been treated for depression several years ago. Mr Bush cautiously fanned the flames of controversy by putting out public statements testifying to his own state health. Mr Reagan, perhaps stung by an earlier comment by Mr Dukakis (the Governor remarked about his political opponents that "a dead fish begins rotting from the head"), referred to Mr Dukakis publicly as "an invalid".

The President's remark ensured wider publicity for the speculation about Mr Dukakis's health, and provoked him into reinforcing the categorical denials that he had been treated for depression by releasing a three page statement from his doctor listing the ailments, all of them minor, that he has suffered over the years. Mr Phillips notes that the recent polls showing Mr Dukakis's lead over Mr Bush had shrunk to only 7-10 points were taken just after the controversy blew up; he maintains that it certainly damaged Mr Dukakis.

Mr Reagan has been more helpful to the Bush campaign in a variety of other ways. His veto of the defence

budget authorisation bill was designed to help Mr Bush focus attention on defence and foreign policy issues, capitalising on issues which are seen to be areas of relative weakness for the Democratic Party and for Mr Dukakis.

Similarly the President's decision to sacrifice his free market principles and not veto legislation requiring companies to give 60 days notice of factory closings was designed to help Mr Bush. It was aimed at blue collar workers, who could be vital swing voters in November but who appear to be stampeding back to the Democratic Party now that they can no longer vote for President Reagan.

Why is Mr Bush failing to win their support? One answer is that, as history proves, the vice presidency is one of the weakest platforms from which to run for the White House. Mr Bush, polls show, does not get the credit for the successes of the Reagan Administration. Indeed some of its successes, *détente* with Moscow for example, have paradoxically made the public less concerned about a range of foreign policy issues on which a Republican candidate might capitalise.

Others, the prosperity of the Reagan era for example, are associated in the public mind primarily with the President, not with his self effacing deputy.

The failures of the Reagan presidency, on the other hand do seem to stick to Mr Bush as though to a magnet. A recent Wall Street Journal/NBC News poll, for example, found that a majority of voters think he was "very involved" in the Iran-Contra arms for hostages scandal.

For several weeks however, the Vice President has been cautiously distancing himself from some Reagan Administration policies. To show up conservative support, for example, running to the right of the President on relations with Moscow, saying the cold war is not over.

In some respects, the Reagan legacy is a constraint on both candidates. Mr Bush must seek, of course, to escape the Reagan shadow and define his own political identity and agenda by responding to the public desire for change.

But he is also, like Mr Dukakis, constrained by the huge budget deficits. The public seems to want its political leaders to tackle social issues, such as the need to improve education standards. But when it comes to proposing new programmes to which address these needs, the budget hampers both candidates.

Mr Bush also leaves himself open to charges of pandering to interest groups when he launches initiatives - such as his proposal for a \$2.2 billion day care tax credit - which are seen as designed in part to close the "gender gap", the overwhelming preference of women voters for his opponent.

Mr Dukakis has an advantage in that, as the representative of the out party, his candidacy is inherently a



George H.W. Bush

call for change. Mr Bush, by contrast, must be more specific about where he sees the need for change, because his candidacy is founded on a continuation of the peace and prosperity of the Reagan era.

These cross-currents, as well as the probability that the election will be perilously close, make his choice of a vice-presidential running mate a particularly difficult one. He must decide whether his candidate should help him appeal to a region of the country or to a particular voting group. At the same time, the selection will be a factor in defining Mr Bush's own fuzzy political identity.

Conservatives are baying for him to put a right winger on the ticket. Rep. Jack Kemp or Mrs. Jeane Kirkpatrick, Mr Reagan's former Ambassador to the United Nations. He is also being told he must balance his privileged background (not since the beginning of the century has an east-coast establishment Republican been elected President) and appeal to working class "Reagan Democrats" by picking an ethnic politician such as New Mexico's Senator Pete Domenici, a Catholic.

Others say Senator Bob Dole, his bitter rival for the Republican nomination, would add "stature" to the ticket and yet others say the choice of Gen. Colin Powell, the first black to hold the position of National Security Adviser, would give the Bush campaign a unique and exciting character.

Character, identity, and image: these are the words which crop up incessantly in discussions about Mr Bush's candidacy. Many find it odd that a man whose opponents testify to his integrity and physical courage - he nearly died when, as the navy's youngest bomber pilot, he was shot down in 1944 over the Pacific - is

unable to communicate the strength which led him into battle and enabled him to survive.

It is partly his mannerisms, his tendency to speak in jagged, at times muddled, sentences, and his efforts to compensate for these weaknesses in a way which often appears forced and anxious, which have contributed to his now all too public "image problem."

The constant barrage of press criticism has not helped. The last week for example, has seen an inordinately long and unbalanced series in the Washington Post, presenting him as a man lacking deep convictions, who last won elective office in 1968 and who has advanced since largely by toadying to the powerful.

The picture is one-sided. He has taken strong and principled positions - on civil rights issues for example - and people who have worked closely with him vigorously deny that he is indecisive or weak and praise his decency and fairness. Even balanced assessments of his political career have found it hard, however, to come up with examples of his leaving more than a shallow footprint in the sand.

One of his top advisers pointed out recently that Mr Bush has the advantage of not having to run against a charismatic rival. But the adviser conceded that if Mr Bush fails to define his political persona more clearly at the convention and in the weeks immediately after it, his campaign will be in trouble.

Correction: In Saturday's issue, as a result of transmission errors, an article on the Kennedy Space Centre overstated the number of visitors in a year. The correct figure is 2.5m. The number has also been climbing steadily over the past 15 years (not 50 as stated).

## Sale at a discount

The City may soon learn what value is attached to being a member of the discount market these days.

Citibank is sounding out possible buyers for Seacombe Marshall & Sampson, the small discount house which it bought in 1985 to boost its place in the sterling money markets. After Citibank shut down its gilt business in July, the logic for keeping Seacombe has weakened, though Citibank won't officially confirm that it's for sale.

But with the Bank of England proposing to open up the discount market to new members, that once privileged enclave is under threat. "Nobody makes good money in this business" grumbles one of its members.

The big hotshots like Gerard, Union and Catzars are all diversifying, and few new entrants are expected. The most widely canvassed names are Midland, Morgan Grenfell and Warburg. Barclays, once a candidate, appears to have pulled back.

The most likely purchasers might be the Japanese who are busy digging themselves into the sterling markets. But the word is that the Bank will not allow a Japanese institution to buy a discount house so long as the UK's long-running reciprocity dispute with Tokyo rumbles on.

The Bank declines to comment.

## OBSERVER

Agee was rarely out of the headlines in the early 1980s as head of Bendix, the aerospace and vehicle components group. His attempt to take over Martin Marietta, a defence contractor, spawned the legendary "Pac-Man" defence in which each accumulated more than half of the other's shares. Ultimately, Allied Signal bought Bendix and 39 per cent of Martin Marietta - and Agee lost his job.

He then went into the venture capital business with Mary Cunningham whom he married after he left Bendix. Though they denied any romantic involvement as Bendix co-workers, her rapid rise as a young, beautiful corporate strategist attracted national attention which forced her out of the company.

Agee was born and bred in Idaho and Harry Morrison helped his father buy a small local steel company. A director of Morrison Knudsen for 11 of the past 15 years, he says he relishes the task of restoring its fortunes.

He will run it just as he did both Bendix and his venture capital firm - with "short lines of communication, candour and by developing a sense of community". His wife has taken over their venture capital firm but "she has been kind enough to keep me on as a token treasurer".

Brussels Bang  
An archaeological site outside the imposing headquarters of the Brussels Stock Exchange has been inspiring digs of a different kind. Suggestions that fossilised clients, lost share certificates, or brokers vainly trying to sell shares in Societe Generale de Belgique may soon be unearthed among the caustic comments heard recently on the trading floor.

Such flashes of black humour are appropriate given that Belgium's Finance Minister Mr Philippe Maystadt has signalled his clear wish to subject the Bourse to the Belgian equivalent of the Big Bang. The Belgian market is something of a relic itself. Official

## THE LAST TEMPTATION OF CHRIST

He's the film reviewer for the Church Times.

The Church's cageyness contrasts strongly with the attitude of the New York Fed whose vaults contain considerably more gold than Fort Knox. If you ask them nicely, they will show you riches beyond your dreams. The Fed reasons, rather sensibly, that a 400oz gold ingot is not something that a casual thief can slip into his pocket.

Sound of music  
France continues to be frustrated in its efforts to encourage the use of French. At a recent conference hosted by WHO, Unicef and the World Bank at Talloires in France, nearly all the main speakers, including some Frenchmen, delivered their speeches in English. This prompted one exasperated French delegate to complain that Francophones were being ignored and that the event had been taken over by Saxophones.

Gold barred  
I had hoped to bring you a small scoop today - a description of the Bank of England's gold vaults. The UK has \$8.5bn of gold reserves, most of which resides deep below Threadneedle Street. But after mulling my request for several days last week, the Bank decided that even Observer represented an unacceptable security risk. "Most of the Bank's own staff don't even get in there," explained a spokesman.

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David Lascelles

David Marsh continues his series on the sluggishness of West Germany's economy

# A consensus in search of a crisis

**A**sked at a press conference last month what would happen in West Germany if the Federal Government in Bonn tried to enact economic policies of the type implemented by Mrs Margaret Thatcher in the UK, Chancellor Helmut Kohl launched into one of his favourite long-winded anecdotes.

During the Queen's state visit to Germany in 1977, the Chancellor told his questioner, the Duke of Edinburgh had been surprised to learn that Mr Kohl's conservatives were in Opposition in spite of winning 46.6 per cent of the votes in the 1976 election. "That is the decisive difference. According to the British system, I would have had a majority in parliament. That has something to do with the question. It has nothing to do with courage," Mr Kohl said.

The reply underlines one fundamental obstacle to a Thatcher-style revolution in West Germany. The federal republic's system of proportional representation has ensured that coalitions have ruled in Bonn for all but four years since the state was founded in 1949. Especially under Chancellor Kohl, this has not made for decisive government.

Mrs Thatcher has ruled with large parliamentary majorities despite the Conservatives' average score in the three UK general elections since 1979 of only 42.8 per cent of the popular vote.

The CDU together with its Bavarian sister party, the Christian Social Union (CSU) has won an average 46.5 per cent of the vote in the last two general elections. But to maintain a parliamentary majority, the two conservative parties can rely only at the expense of considerable political bargaining with each other and with the junior coalition partner, the Free Democratic Party (FDP).

Additional complications are thrown up by West German federalism, giving great importance to frequent state (Land) elections and to compromise arrangements with the Bundesrat, the states' parliamentary chamber.

The political checks and balances form part of a system of decentralised decision-making running through the whole of West German society, involv-

ing a large and complex cast of industrial and business associations, trade unions and community groups. The roots in some cases go back through centuries of Germany's fragmented history.

Despite the acknowledged need for economic and social reforms to cope with the challenges of the 1990s, the very success of the system since the war has created built-in resistance to change.

All this - together with the fact that the problems of the West German economy are not nearly as dire as those confronting Britain during the 1970s - combines to make West German-style "Thatcherism" impossible as well as inappropriate.

Proportional representation,

Immaculate Conception." Mr Joffe classifies the German consensus system as "a society which moves at the lowest common denominator. Everyone has veto power."

Mr Kohl's own reticence about tackling interest groups contrasts with the market-orientated economics put into action after the war by the Christian Democrats under Mr Ludwig Erhard, West Germany's first Economics Minister.

Politicians like Mr Kohl still pay lip service to Mr Erhard's reforming zeal. But the Erhard drive was only practicable at a time of national effort to rebuild the war-shattered country. It is a period which today's comfortable Germans, for obvious reasons, do not want to

optimistically of a surge of entrepreneurialism among younger people.

Mr Klaus Luft, the chairman of the computer group, Nixdorf, says pessimism is often overcome. He points to progress made in improving flows of venture capital - even though the federal republic still lags behind the UK and France in this respect - and says the Government is now "really trying" to reform the telecommunications, tax and health systems. "More people now dream about becoming millionaires. There is an entrepreneurial younger Germany."

Significantly, some SPD industrialists also voice worries about the consensus system.

Mr Ernst Pieper, the chair-

man of the state-owned Salzgitter steel group, is a member of the SPD industrialists' group set up to advise the party on future strategy. He says of the past: "The price paid for avoiding strikes was too high."

Mr Pieper says that West Germany's system of worker co-determination, which puts employee representatives on to supervisory boards, makes "nasty decisions" difficult to take.

Mr Detlev Rohwedder, state secretary in the Economics Ministry under the previous SPD government and now chairman of Hoesch, the steel company, says that politicians are reluctant to ask for sacrifices. "We will undoubtedly see a much faster export of industrial capital."

Professor Ulrich Steger, the former SPD Finance Minister in the Heise state government, who is now at the European Business School near Wiesbaden, points out that labour rigidity is a problem which has its roots as much with employ-

ers as workers. "Employers are tying their workers to them with gold watches, special pension arrangements, capital participation."

But he points out that the "corporate social system" is also one of Germany's strengths. "You cannot make a Mercedes Benz or a sophisticated machine tool with a vagrant workforce."

Highly developed job training is also a source of immobility. "Companies have all invested heavily in their people. We have such a well-trained labour force that companies won't let them go," says Professor Steger.

One complaint frequently heard from industrialists and bankers is that communications with the Government function very badly. Mr Werner Diester, chairman of the steel and engineering group Mannesmann, says: "I would not complain too much about the Kohl Government" which, he says, "understands the problems of industry." But he attacks high corporate taxes, particularly the Government's "stupid" decision to double tax on the sale of small business. "Not even the Socialists tried to do this."

There is widespread agreement that the SPD is not currently a viable alternative.

Mr Ronald Schmitz, finance director at the chemicals giant BASF, says that West Germany's lack of a proper capital market has added to the difficulties. "Bonn is a purely political capital. It is not a place for dialogue with industry. Industry meets politicians more or less only when it is asking for favours."

Since the majority believes that the structure of the German consensus system is basically sound, the ground for a "Thatcher revolution" in West Germany is as infertile as ever.

Mr Rudolf von Bennigsen-Foerder, chairman of Veba, the energy conglomerate, says simply: "German politics does not have the strength of Mrs Thatcher."

Radical reforms in West Germany of the type seen at the end of the 1940s and in the 1950s seem only possible at a time of crisis. And of course the very workings of the consensus system tends to smother any sense that a crisis could be on the way.

The first article in this series appeared on August 10. Further articles will appear over the next few weeks.

LOMBARD

# Interest rate illusions

By Clive Wolman

THE CLAIM that raising interest rates reduces inflationary pressures has so often been repeated by the Thatcher Government, City economists and in macro-economic models over the last few weeks that the public may be forgiven for considering it a self-evident truth.

The classical argument for the 3.5 percentage point increase in rates since May had the attraction of simplicity: savers would have an additional reason to hold on to their money, while would-be borrowers would think twice about their costs. The trouble has been the accumulating evidence that individuals and manufacturing (but not property) companies are insensitive to interest rates when considering how much to save, borrow or invest. The more aggressive credit providers have even found that higher rates allow them to exploit new ways of selling credit and overcoming the institutional obstacles to its provision.

Supporters of conventional interest rate wisdom have therefore resorted to a variety of more sophisticated reasons, which get tied up in their own subtleties. Their argument - that higher interest rates mean general belt-tightening - applies only if the borrowers tighten their belts more than the savers (now benefiting from the higher interest rates) loosen theirs.

Most macro-economic models assume they do, but on evidence derived mainly from a period when savers, concentrated in the 50s and 60s age group, had to use every opportunity to re-build their inflation-ravaged assets. Today's 50-70 year-olds, enjoying six years of high real interest rates, a booming stock market and over-funded pension schemes, are more likely to turn additional interest income into better holidays and cars.

According to Mr Tim Congdon, of Shearson Lehman Securities, the most important effect of a rise in interest rates is the way it makes people feel less well-off and less inclined to spend. All capital assets - real property, bonds and shares - are based ultimately on the future stream of rents or earnings. When interest

rates rise, so does the discount rate by which future earnings are translated into (lower) present values.

But because houses and shares are long-term assets, their yields must be discounted using long-term interest rates. The Government's interest rate moves this year (down, and then up again) have had almost no effect on long-term rates, now well below short-term ones. As in 1985, home buyers are unlikely to pay much attention to short-term mortgage rates; and lenders become more flexible in allowing customers to defer payments when rates rise.

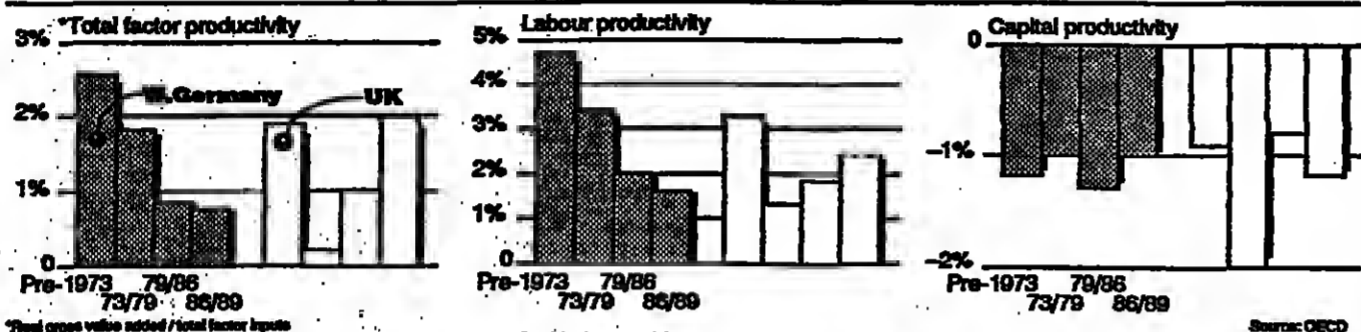
But even if interest rates were to push down house prices, it is not clear why this should lead to a general fall in spending. Home-owners who plan to sell to move to smaller houses or cheaper regions will certainly feel worse off. On the other hand, youngsters struggling to get on to the housing ladder - and owners planning to trade up - should feel better off as prices move back into their range and they have less need to skimp and save.

The argument can be generalised to all assets. If investors are to receive higher long term yields, future purchasers of shares and bonds should expect to be better off - and feel no need to cut spending now.

The other main rationale for favouring interest rates is the disinflationary effect it will have through hoisting the exchange rate. But sterling forward rates indicate unequivocally the (rational) expectation that sterling will gradually fall back again, and short-term deviations in exchange rates are exactly what exporters and importers have increasingly been hedging themselves against. This, together with the scope for building up or running down stocks, will soften or even neutralise any disinflationary effect from a temporarily higher exchange rate.

The underlying problem is that sterling, like other currencies, continues to enjoy a government backed monopoly in its home country, while the factors determining its supply and demand have become too complex to control.

## The Anglo-German story - changes in



means that marginal groups have a tremendous amount of influence," says Professor Kurt Biedenkopf, formerly general secretary of the CDU. As a deputy in the Bundestag, he now carries on a lonely intellectual crusade against Mr Kohl.

West German politicians, Mr Biedenkopf points out, have become a specific breed depending on politics not just for prestige and influence but also for income. "They are not very rich, but they are very careful." Talking on vested interests is considered politically impossible - "They don't have the guts to do it."

"The ossification which took Britain 300 years to acquire has happened here in 30 years," says Mr Josef Joffe, foreign editor of the *Städtische Zeitung*, the liberal Munich-based daily newspaper.

"Mrs Thatcher revived the class struggle. She said, 'I'm going to take on the miners, I'm going to break them.' That is as alien to German thinking as Catholics questioning the

repeat.

Mr Otto Schlecht, the veteran state secretary in the Bonn Economics Ministry, who used to work with Erhard during the 1950s, says such a man might well fall in today's federal republic.

During the Erhard era, he says, in the fledgling years of the European Common Market, the federal republic used to be suspicious of ideas from Brussels because they encouraged bureaucratic "bureaucratification." Now, he says ironically, Brussels provides a stimulus for liberalisation - through the 1992 internal market programme - which would not otherwise come from within West Germany.

Another change from the Erhard period is the increased complexity of party politicking. Mr Johannes Rau, the Social Democratic Prime Minister of North Rhine Westphalia, who ran unsuccessfully for the chancellorship in the 1987 general election, points out that the CDU is a "holding com-

pany" encompassing a wide spectrum from right to centre-left. "They are no Tory party," he says.

Because of the need to mollify all sections of his own party, Mr Kohl spent a large portion of time in party caucuses this summer to try to win support for the Government's 1990 income tax cuts.

Last month the package was finally pushed through the Bundestag, which has a veto over tax legislation, 17 months after it was decided on by the Government. To buy approval in the Bundestag, Mr Kohl was forced to make concessions to northern CDU states asking for more regional aid. This additional funding will drive up the budget deficit next year, forcing the Finance Ministry to

introduce extra consumer tax increases in 1990. And this will partly offset the income tax cuts planned for 1990.

Mr Karl Hohmann, a former close aide to Erhard, who is now chairman of the Ludwig Erhard Foundation in Bonn which tries to keep the great man's thoughts alive, points out how such wrangling has grinded Mr Erhard, he says a trifle wistfully, never used to set foot in CDU party headquarters.

The bickering over the 1990 tax cuts has eroded business support for the Government. This has been added to more general dissatisfaction over the coalition's failure to bring in the free market policies held out when Chancellor Kohl took over from Mr Helmut Schmidt and the Social Democratic Party (SPD) in October 1982.

However, this discontent with politicians has had a silver lining. In some areas of industry, it has prompted greater self-reliance, making some industrialists even talk

## LETTERS

### Problems in the Pact

**From Mr Jonathan Gordon-Till.**

Sir, Having been deported from Romania in 1984, I am interested to read "A Romanian threat to the Warsaw Pact" (9 August). There has been much recent comment on President Nicolae Ceausescu's megalomaniac fantasy.

But your assertion that Romania poses an embarrassment to other eastern European states may not be the predicament you maintain. Despite the recent failure of the Conference on Security and Co-operation in Europe to agree on minority rights and freedom of travel (because of Romania's intransigence), eastern European states need little persuasion to hide internal social disorders behind Ceausescu's intractable autocracy.

Jonathan Gordon-Till, 15 Oakthorpe Road, Summertown, Oxford.

### Spectacle of a free market

**From Mr Clive Stone.**

Sir, Harmonisation of the principles of tax within the European Community (EC) has to be accepted, but there are strong arguments for leaving individual governments to determine their own policy on levels of tax. VAT is a good example, following the recent EC Court decision to impose VAT on spectacles in the UK, against the British Government's wishes.

Each country, having accepted the discipline of harmonisation, must surely be free to examine the negative effects on its economy and competitiveness within the European market when deciding its VAT rate.

It must be free to balance this decision against the overall effect on its own internal economy, social policies and principles, and take this into account when determining its rate of VAT. As long as VAT (or other means) is not used to restrict imports or to disadvantage foreign products/produc-

### Ring in the new

**From Mr Wally Olins.**

Sir, I write both as a design consultant - a breed which Colin Amery (August 8) so affects to despise - and as a member of the public who from time to time uses call boxes.

Mr Amery claims that the Gies Gilbert Scott telephone box was "a very architectural object" - whatever that means. It was also freezing cold in winter, boiling hot in summer, and a public nuisance throughout the year.

Whatever the merits or otherwise of the new boxes by British Telecom and Mercury, none can be so absurdly impractical as the old red boxes, whose only virtue is that they have become quaint period pieces over the 60 years they have been in use. Let the Americans, Japanese or any body who feels like it collect them, as far as I am concerned, the sooner the better.

Wally Olins, 22 Dukess Road, WCI

### Industry's flexible friends

**From Dr Colin Mason.**

Sir, It is appropriate that your report (August 9) on Midland Bank's decision to provide in-house nursery facilities for the children of its staff appeared immediately above a report of a study claiming that the use of flexible working in British industry is widespread.

One of the important characteristics of the "flexible firm" is that it subcontracts out many of its service require-

ments (for example, cleaning, catering, gardening) to specialist providers. If other companies follow the Midland Bank example, will this stimulate the emergence of specialist providers of corporate childcare services and, in turn, encourage companies also to subcontract out this activity to specialist providers?

Colin Mason, Department of Geography, University of Southampton.

### Ring of truth

**From Mr Michael Varcoe-Cocks.**

Sir, David Lascelles, writing in your Observer column (August 11), describes Corney & Barrow's restaurant in the City of London as "an up-market establishment... silver napkin rings... Lincolnes porcelain, imaginative cuisine."

High quality porcelain and cuisine are one thing, but any restaurant that uses napkin rings (silver or not) cannot expect to be taken seriously,

even with a "special City lunch at £19.95 a head" (without pudding/sweet course - not "desert").

We should note, Sir, that napkin rings were used only for wrapping used napkins for repeated use by the same person in modest homes and (many years ago) in very modest restaurants.

Michael Varcoe-Cocks, 17a Neveam Mansions, Warwick Road, SW5

### Accountancy training should be expanding, not contracting

**From Mr J. Claret.**

Sir, Accountants as well as academics have expressed concern over teaching accountancy in higher education establishments. This came to head recently when the University Grants Committee (UGC) proposed that the number of available places on accountancy courses should be frozen.

This seems self-defeating. Demand for this directly vocational qualification is unprecedentedly high; surely it should be provided.

The principal difficulty is generally acknowledged to be uncompetitive salaries and the consequent problem of attract-

ing high-calibre teaching staff to the academic world. Salaries on offer in industry, commerce or public practice, even for newly-qualified accountants, far exceed those on offer in education.

This has two principal effects: first, that academics are constrained in their research activities, and thus their contribution to the future of the profession is reduced; second, that the pressures of student numbers adversely affect the quality of tuition.

Such a situation is in nobody's interests. Provision of accounting training should be expanding, not contracting.

At a time when management is putting greater emphasis on qualifications and indeed training generally; when the government is encouraging industry to establish closer links and become increasingly involved in education; when companies themselves are demanding education geared more closely to business strategies and corporate objectives, why cannot a solution to this problem be found?

Is it not time for industry, and the accountancy profession generally, to re-examine its role in the education process, and become more involved in the debate about allocating

resources?

This institute has for a long time been concerned to break down the barriers between industry and education and to provide a qualification tailored to the needs of employers. It has gained considerable experience in this area - experience and ideas that we are only too willing to share and discuss.

It is the future of the profession, and corporate success, that is at stake. Their effective realisation is the responsibility of all involved.

J. Claret, The Chartered Institute of Management Accountants, 65 Portland Place, W1

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Monday August 15 1988



Deborah Hargreaves  
on Wall Street

Futures pits  
braced for  
new indices

THE final quarter of the year has always been a time of feverish activity in the futures industry, when exchanges rush to cash in on the latest lucrative trend with their version of the year's favourite product. This year it is the stock index futures market that is bracing itself for an assault from an array of new contracts.

Ironically, a wave of new index products is set to hit the futures pits at a time when the established market is still reeling from last October's stock market crash - is stuck at a trading level almost a third below its volume of recent years.

The Commodity Futures Trading Commission, the US industry's regulatory body, had held back on approval of new index contracts in the aftermath of the market debacle, when the futures market came in for some fierce criticism for its part in the collapse. But, after asking exchanges to provide more details about safety regarding their markets in a downturn, the CFTC has once more opened up its approval process and a trickle of new contracts is appearing.

But with the stock market in the doldrums - save for the jitters created by rising interest rates this week - and the existing stock index futures market already overcrowded with contracts that are straddled for volume, who wants to trade these new products?

Portfolio insurance was largely discredited in the stock market crash and stock index arbitrage is restricted on days of large stock market moves. This has depressed the industry's bellwether Standard & Poor's 500 index futures at the Chicago Mercantile Exchange to a daily volume of around 42,000 contracts last month compared with nearly 60,000 a year earlier.

Two broad-based new indices that were launched enthusiastically by the New York Futures Exchange about a year ago are languishing with no trading volume at all.

To take a cynical view of the frantic rush into index products, exchanges could have an eye on the November election that may usher in a President with more of an interventionist approach to the financial markets than the Reagan Administration. If the exchanges get their indices approved and listed now - whether they trade or not - they at least will not be precluded from the market in any future clamp-down.

Of course, the exchanges themselves all like to believe they have a twist or a new angle to attract investors and many have their new indices pitched very firmly in the international arena to catch the swing towards the globalisation of investment funds.

The Coffee, Sugar and Cocoa Exchange is hoping to set off its International Market Index before the end of the year, into what it sees as a unique market segment. Composed of 50 foreign equities that trade directly or as American Depositary Receipts in the US, the index, which will trade as a futures contract on the CSE and as an option on the American Stock Exchange, is angled at fund managers who want to build a synthetic international portfolio.

More ambitiously, Chicago's two major exchanges - the Board of Trade and the Mercantile Exchange, both have applications pending to trade futures on two Japanese stock indices as part of an ongoing effort to tap into the same globalisation trend.

As the first futures contracts in the US to be cleared and settled in a foreign currency - in this case Yen - these contracts have thrown up all sorts of regulatory issues.

Closer to home, the Board of Trade has plans to launch its CBOE 350 index futures contract on the floor of the Chicago Board Options Exchange in November as part of a joint venture agreement.

Moscow says withdrawal on target

By John Lloyd in Moscow

THE WITHDRAWAL of half of the 100,000 Soviet military personnel in Afghanistan was completed yesterday, one day before the date agreed under the Geneva Accords, according to Radio Moscow.

However, Soviet and Afghan officials both say the Afghan army, now seeking to retain control of the areas which Soviet troops have left, is coming under increasing heavy pressure from rebel groups. In one of the biggest rocket attacks on the capital Kabul yet reported, five people - four women and a child - were killed and six others wounded on Saturday night. Spelling of the eastern towns of Gardez and Khost claimed a further 14 dead and 10 wounded, the Soviet newsagency Tass said last night.

Gen. Shah Nawaz Tanai,

head of the Afghan armed forces, told the Soviet army paper Krasnaya Zvezda yesterday that there was a "sharpening of the political and military struggle between the national powers and the opposition forces" in the areas evacuated by the Soviet forces - including the provinces of Badkhishtan, Hilmansy, Kandabar, Kunar, Manganar and Paktia.

These provinces are in the south of the country, bordering Pakistan. The paper said Soviet troops had withdrawn from 25 of Afghanistan's 31 provinces. The largest contingent - of more than 20,000 - remains in the capital. The provinces still believed to contain Soviet forces are Baglan, Balkh, Herat, Kabul, Parwan, and Samangan. Five of these form a corridor north to the

Soviet border, while Herat borders on both the USSR and Iran.

According to a report from Renter in Kabul, Soviet forces had made deals with rebel groups to allow unhindered passage north for several of their units. Quoting Soviet army sources, Renter said the order to contact the rebel groups had come from "a very high" level in Moscow.

Western officials in Kabul said that a member of the Afghan Senate had spoken of contacts between senators and the rebel groups - to "safeguard their future in case of a Mujahideen takeover".

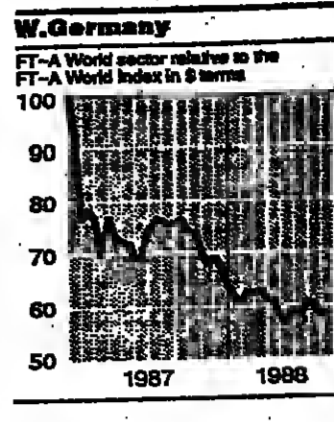
Diplomats in Kabul described the fighting as increasingly a war between loosely allied rebel groups and a weak Government.

Meanwhile, Marshal Sergei Akhromeyev, Chief of the Soviet General Staff, has talked of "difficulties" in restructuring the armed forces. Many Soviet officers, he told Krasnaya Zvezda, had not accepted the new doctrine of a "necessary sufficiency" in the Soviet forces, by which numbers are to decline and quality to rise. "It is not easy to introduce new thinking to our lives. There is still too much centralisation and paperwork. We must introduce openness in every possible way".

The Soviet reading public was introduced yesterday to the MIG-29 fighter, believed to have been in use in the Soviet air force since 1985. This is the Soviet answer to the US F-16 and will be shown at the Farnborough Air Show in England next month.

Europe's slow man  
picks up speed

The West German equity markets have been defying economic logic for so long that investors might ask themselves whether it is not time to exploit this perversity. Almost every issue which was causing concern at the turn of the year - including the level of economic growth and the exchange rate - has since come right. But the market remains one of the worst laggards among major world markets, underperforming the FT-A World Index by 13 per cent since the beginning of the year in dollar terms, and the European index by nearly 5 per cent.



there must be a suspicion that first-time investors are sometimes getting a raw deal. Of course there are one or two notable exceptions, such as the Korea Fund, which because of its scarcity value trades at a premium of over 80 per cent to net asset value. And some of the new bond funds, at least, are still selling at a small premium. But an historical evidence this is likely to be temporary, and habit of selling short most new issues of closed-end bond funds on the assumption that it will be able to buy the stock cheaper in the future.

Clearly the West German authorities overdid their gloom about the domestic economy, which is now expected to grow at 2.5 to 3 per cent this year, and virtually everyone worried too much about the D-Mark. The result was predictions of anything from a fall to only a negligible rise in corporate earnings for 1988 - forecasts which are rapidly being revised upwards following a sprinkling of excellent six-month results from the likes of Siemens and Hoechst.

More of the same should be on offer from others and if the dollar holds companies could find their results boosted even further in the third quarter by a positive currency translation effect, for the first time in years. For weeks already, the news from the corporate sector has been upbeat; but German chairmen may need to repeat the message for some time before it sinks in - and if they are wise, they will say it one or two extra times for the foreigners, without whom dullness could still prevail.

better known brokerage houses. In the first eight months of this year \$13.6bn has been raised by 36 new US closed-end funds - more than in all of last year, which was itself a record - and over the past two-and-a-half years \$27.5bn, or almost as much as the entire market capitalisation of all UK investment trusts, has been sucked into an industry which less than a decade ago seemed on the verge of extinction. While the number of new closed funds is relatively small in total, they accounted for 40 per cent of all the money raised by initial public offerings last year, and in the first half of 1988 they were responsible for 80 per cent of the money raised.

There are a number of reasons for this popularity. According to Thomas J. Herzfeld Advisors, a Miami specialist in funds of this type, the average discount to net asset value had narrowed from 28 per cent in 1979 to just 1 per cent at the start of last year; and although it has since widened to 12 per cent it is still far less than the 22 per cent average for UK investment trusts. In addition, Wall Street firms have capitalised on the growing risk awareness of the small investor in the aftermath of last October's stock market crash by launching a number of closed-end bond funds.

There is another explanation for the popularity of recent issues which does not always reflect well on the promoter. Unlike the UK investment trusts, which are largely owned by the institutions, the vast majority of shareholders in US closed-end funds are relatively unsophisticated small investors. Throw in the 7 per cent sales commissions which Wall Street firms earn on new issues, plus the natural tendency for most closed-end funds to fall to a discount shortly after the issue, and

As a general rule it is far better to ignore the initial public offering of a closed-end fund, and wait until the price has dropped. In time small investors may begin to wake up to this strategy, which could slow the pace of new issues; and supply may be reduced by takeover activity as corporate predators see the opportunity for asset-stripping. In the meantime there is a good case for the SEC to insist that Wall Street firms put a more prominent investor health warning on one of their most profitable products.

Stock Exchange

Were it not for the quarterly post-mortems in the Stock Exchange's Quality of Markets report, one might have thought that everyone had got tired of discussing the crash. However, the latest issue shows that London, along with Paris and New York, was almost alone in even starting such discussions. Judging by the response to London's questionnaire, most of the world's other exchanges seem to have done no soul-searching at all; they have no clear idea of who was buying and selling last October, do not think that there are any lessons to be learnt from the crash, and see no need for preventative action. When it comes to discussing the causes, most foreign exchanges simply think of it as a one-off global event in which national influences played little, if any, part. It is all very well for London gently to deplore the lack of thought that has gone into the matter. Its statistics on trading volumes since the crash suggest that it must have more leisure for examining the entrails than most other houses. While turnover in London is stuck 30 per cent below pre-crash levels, volume in the rest of Europe taken together is up by nearly 10 per cent.

Afghans prepare to go home

Christina Lamb tells of a dangerous repatriation

NOW that the Soviet Union seems to have kept its promise to withdraw half its troops from Afghanistan by today, the possibility of the 3m Afghan refugees in Pakistan returning home is rapidly becoming reality.

The US aid agencies based in Pakistan are preparing for one of the largest repatriations ever, which they see as fraught with difficulties.

Although the rebels claim to have "liberated" 80 per cent of the east of the country, so far few of the refugees in Pakistan and Iran have returned.

Reconstruction has begun only in the Panjshir valley of northern Afghanistan. The area is free of fighting because the local rebel commander Massoud has promised the regime in Kabul that he will not attack departing troops. About 250 families a day are moving.

The chief representative of the UN High Commission for Refugees in Pakistan, Mr René van Rooyen, believes that today will be a turning-point: "For there to be a harvest next year, it is vital that refugees return to plant the winter crops. The basic reason why they left Afghanistan is disappearing and they should not overstay their welcome."

However, he is reluctant to advise people to return: "So much conflicting information comes from inside Afghanistan that we have little idea what they will find."

The main uncertainty is over the number of land mines left by the departing Soviet troops. A human rights lawyer, Mr Charles Norchi, says: "The mines will make the Afghans suffer for yet another decade". Armies usually keep maps of minefields but, in this case, there has been indiscriminate laying of mines and plastic booby-traps disguised as toys.

The Mujahideen have no mine-clearing apparatus - they use either advance parties of goats or their bare hands - and border hospitals



Afghans look on at an air base as Soviet troops prepare to leave the country

are crowded with mine victims. Some observers say rebel leaders have deliberately exaggerated the number of mines to deter refugees from returning. Mr van Rooyen says: "It is no secret that certain political parties consider repatriation undesirable."

Every refugee had to join a political party to qualify for rations. While the refugees stay in Pakistan, the parties retain importance as the main channel for arms and aid.

Although the rebel alliance denies claims by Radio Moscow that refugees are being shot and arrested as they try to cross the border, many refugees believe they would be stopped.

Mr van Rooyen doubts that once large numbers of refugees have begun to return to Afghanistan, repatriation will be as smooth as was their exodus from Pakistan. "Ten years as refugees have had a profound impact on their psychology. Pakistan may not be the most advanced country, but it is light years ahead of Afghanistan," he said.

The social structure at home has also changed meanwhile. Many Afghans in their late teens remember little of their homeland after 10 years in camps, and have scant respect for the traditional tribal leaders.

According to the author of a recent report on post-Soviet Afghanistan, the Afghan man now is not the simple mountain dweller who has never left his valley. The writer predicts bloodshed when rebel commanders come into direct conflict with traditional leaders.

Mr van Rooyen agrees: "People who in traditional society would have been nothing have become leaders. It is a big question how they'll fit into the tribal system where allegiance was to the local malik."

The return also portends intensified controversy over the possible return to Afghanistan of the former king, Zahir Shah, who is supported by some rebels, bitterly opposed by others. A group of tribal leaders is setting up an office in the border town of Quetta

with the stated aim of preparing for the ex-king's return. The UNHCR has dropped its original proposal to set up feeding stations inside Afghanistan, saying "handouts do not fit Afghan culture." Under consideration instead is the transporting of wheat to towns, where it would be sold to middlemen who would take it to villages and retail it.

The UN body would use the proceeds to create work programmes to repair the infrastructure and irrigation. The money earned by the Afghans would enable them to buy more wheat.

The suggestion will need to be approved at a conference to be held next month in Islamabad. However, the UN has already set up a logistics cell to organise the transport and arranged to buy wheat from Pakistan.

The UN repatriation appeal is well short of its \$1.6bn target, but Mr van Rooyen believes that once refugees start to return, money will pour in.

Sackings prompt probe into City insider trading

By David Lascelles and Charles Hodgson in London

LONDON'S Stock Exchange is investigating a new insider trading scandal following the dismissal of two employees at leading City merchant banks and the resignation of a third last Friday.

The three employees are alleged to have passed on or used information about Mecca Leisure's \$280m takeover bid for Pleasurama before it was announced on August 4. Their departure came only two days after two employees of County NatWest WoodMac were dismissed for allegedly using inside information about Grand Metropolitan's plans to sell its inter-Continental Hotels subsidiary.

Midland Montagu, the investment banking division of the Midland Bank Group, confirmed yesterday that "a junior member of the corporate finance staff resigned on Friday after being in breach of

in-house rules." The employee has been identified as Ms Cathy Rowlands. Midland Montagu is advising Mecca in the transaction.

Lazard's Investors, the fund management arm of Lazard's merchant bank, also confirmed that a fund manager had been dismissed for allegedly contravening staff dealing rules. He is Mr Bill Leggins. The third person involved was employed by Morgan Grenfell Securities. Morgan Grenfell confirmed yesterday that a junior equity salesperson had been dismissed. He is understood to be Mr David Gray. Evidence in the case is believed to be on tape recordings of Mr Gray's telephone conversations at Morgan Grenfell, where a record of all transactions is kept. Morgan Grenfell's compliance department told the Stock Exchange of its suspicions.

US journalist sacked. Page 2

Bush campaign in search of the vital spark

Continued from Page 1

New York and a dark horse, Senator Dan Quayle of Indiana. Mr Lee Atwater, Bush campaign manager, said an announcement would be delayed until Thursday to maintain suspense and interest in the convention.

The running-mate dilemma reflects some uncertainty within the Bush campaign over future election strategy. The selection process has lent some suspense to the convention, which is being held in a city far better known for its Democratic Party lineage, going back 50 years to the demagogue and former Louisiana Governor, Huey Long.

During the Reagan years, New Orleans and the surrounding economy have suffered badly. Over-dependent on oil,

the local port has suffered as a result of the Administration's deregulation of the railroad and trucking industries.

The State of Louisiana has an unemployment rate of 10.5 per cent, twice the national average and the highest in the nation.

But this week there is a mood of festivity. Delegates arriving at New Orleans airport are met by jazz bands and, when they step out into the steamy heat, they can see well-maintained city parks and streets which are being swept in the early hours of every morning. "This is our big moment for a comeback," said a shopkeeper in the new shopping mall opposite the Superdome.

Maxwell weighs anchor

Continued from Page 1

grammed with the direct lines of at least four merchant banks in New York and London. Another line connects the seaborne Mirror Group chairman to the Daily Mirror newsroom, whence Mr Maxwell boasts he can receive a copy of the front page at the same time as the paper's editor.

Macmillan, yet to respond to the Maxwell overtures, is fighting a \$75-a-share bid from a group organised by Mr Robert Bass, a Texas investor. Mr Maxwell depicts MCC as a "white knight", rescuing the US publisher from a ruthless

wheeler-dealer. The publisher's defence includes a "poison pill" which would break Macmillan into two divisions, information and publishing. An appeal against a ban on the proposal starts today in the Delaware Supreme Court, but, whatever happens, the MCC bid includes a \$1.1bn offer for the information portion of the publisher should its full takeover be turned down.

"If the court case goes against us I'm ready to swallow the Mediterranean," Mr Maxwell said on Saturday. "Then after a pause: "Well, I'll certainly drink a glassful."

Table with columns for location, temperature, and other weather data. Includes locations like Abasco, Algiers, Amsterdam, etc.

Table with columns for location, temperature, and other weather data. Includes locations like Abasco, Algiers, Amsterdam, etc.

SIMON Equipment-Contracting-Services. Operating profit up 44%, Profit before tax up 25%, Earnings per share up 20%. Includes financial summary table and contact information for Simon Engineering plc.

# FINANCIAL TIMES SURVEY



The government of President Joaquim Chissano has started to win international support for its

military and economic battles. But peace, still some way off, is critical to the country's recovery programme, writes

Michael Holman, Africa Editor

## Tenacity in adversity

FEW STATES in Africa have battled with such tenacity against disaster, both natural and man-made, as Mozambique.

Today the Frelimo government of President Joaquim Chissano is campaigning on three fronts - military, economic and diplomatic - to bring about recovery and win support for its cause.

As well as trying to cope with alternating drought and floods which marked the early 1980s, the government is fighting rebels who are responsible for, in the words of a senior US official, "one of the most brutal holocausts - since World War Two", it is radically changing its economic policies, once dominated by an unrealistic socialist blueprint and is winning increasing western support for its efforts to provide black southern Africa with trade outlets which would end their dependence on routes through South Africa.

The result is what might seem some unlikely alliances for an ostensibly Marxist government. Although close ties remain with the Soviet bloc (Frelimo's main backer in the war for independence), British officers help train the Mozambican army and Mrs Margaret Thatcher has a standing invita-

tion to pay a visit. The US is a major donor, while the International Monetary Fund praises the reform programme.

Whether the combination of international assistance and the government's tenacity in the face of adversity will be enough to tilt the balance away from disaster and towards development remains to be seen. Much will depend on whether the war against the Mozambique National Resistance (MNR) can be brought to an end, and this in turn depends on relations with South Africa.

A non-aggression pact with Pretoria, signed in 1984 by the late President Samora Machel, proved critical in forging closer ties with the West but failed to bring the conflict to an end. Mozambique honoured its side of the pact, ending transit facilities for guerrillas of the African National Congress (although Pretoria maintains that some insurgents still cross the common border). But South Africa, which took over white Rhodesia's role as the rebels' main suppliers in 1979, did not keep to its side of the agreement.

Following what seems to be a rapprochement between the two governments, this may change. In the meantime, as Dr



# Mozambique

Mario Machungo, the Prime Minister, explains, the government cannot delay economic changes until the MNR is defeated. "They are two sides of the same coin. We cannot wait for the end of the war to start economic rehabilitation. And we cannot postpone the consolidation of the economy while we defend our country."

The government faces a formidable challenge. A bleak colonial inheritance from Portugal, a chaotic transition to independence in 1975, weather which has alternated over the past decade between drought and flood, more than 20 years of conflict and some costly government policy mistakes have devastated the country.

Today almost a third of Mozambique's 15m people are either living as refugees in neighbouring states, displaced from their homes but still living within the country, or dependent on food aid. Nearly 100,000 died in the famine of 1983-84, and as many have been

killed by the Mozambique National Resistance.

Mozambique's first war was for independence, waged by Frelimo. The second immediately followed, when Rhodesian forces hit a wide range of targets, including bridges, dams and power stations. In retaliation for Mozambique's support for the guerrilla army of Robert Mugabe, who was to become Zimbabwe's first Prime Minister.

Then followed the third and current conflict against the MNR, easily the worst of the three. Damage and lost earnings ran into billions of dollars. Aside from attacking ports and railways - losing Mozambique service charges and ensuring that its neighbours became dependent on South African routes - the MNR waged a savage campaign against the civilian population. Over 2,200 primary schools, 700 clinics, 900 stores and 1,300 trucks, buses and tractors have been destroyed.

It has been a body blow against an already fragile economy, which today functions at a fraction of 1974 levels, the year before independence.

The decline gathered pace after 1980, when the war started to intensify. Exports have fallen 80 per cent between 1980 and last year. Transport earnings dropped from \$915m in 1980 to \$412m in 1985, and remittances from Mozambican workers in South Africa fell sharply as the mines in the republic, under pressure from the government, drew more and more on domestic labour.

The external debt of some \$3.2bn has a theoretical annual repayment rate of nearly three times the value of exports. The most important target for the rebels are the three railway lines to the ports of Nacala, Beira and Maputo, serving the black-ruled hinterland. Rehabilitation of the lines and the ports is under way, under the auspices of the Southern Africa Development

Co-ordination Conference, the nine-member association of African states. Considerable progress has been made, but questions remain about the security of the routes.

After the war, the greatest single obstacle to recovery is the acute shortage of skills. Portugal left behind an illiteracy rate which exceeded 90 per cent, and most of its 200,000 settlers decamped in the chaotic months before and after independence.

Alarmed by Frelimo's Marxist rhetoric and frightened by a spate of killing and counter-killing, triggered off by a futile revolt by rightwing whites in Lourenço Marques, since renamed Maputo, they took what they could carry, often destroyed what they had to abandon and left behind a country almost bereft of a managerial and entrepreneurial class.

The network of rural trading stores - a vital part of the agricultural system - closed,

industry and manufacturing slumped overnight and commercial farming all but ceased.

Partly in accordance with an ideology which demanded state control of the economy, and partly because people looked to the state to help fill the gap left by the departing Portuguese, much of the economy was in effect nationalised within months, from corner shops to cement factories.

If the rhetoric of the day was to be believed, Mozambique had embarked on a transformation for which the only parallel would be post-revolutionary Russia. Early in 1980, buoyed by the belief that Zimbabwe's independence marked the dawn of a new, happier era for Mozambique, Samora Machel launched what was to be a "decade of victory over underdevelopment."

Although the state handed back some concerns to the private sector, the grand scheme envisaged the mechanisation of an agricultural sector domi-

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President Chissano acknowledges his supporters.  
Photos: Mozambique Information Agency

nated by vast state owned farms. People were to be regrouped in communal villages, making the provision of social services easier, and also leading to the "urbanisation of the rural zones", as Frelimo put it. Industrial development was to include a steel rolling mill using Mozambique's ore reserves, and an aluminium smelter, drawing hydro-electric power from the country's giant Cahora Bassa dam and local bauxite.

The rhetoric was overtaken by reality - not only of continued war, but of manpower and capital constraints - accompanied by the belated acknowledgment that the agricultural policy was a fiasco. As other African countries had discovered (or were discovering), neglect of peasant farmers, the bedrock of production, proved disastrous.

The turning point came in 1983. At Frelimo's fourth congress, delegate after delegate, encouraged by Machel, condemned the party's unrealistic policies and particularly those applied to agriculture. The reforms that then got underway laid the basis of the economic changes which have gathered pace under President Chissano's leadership.

In January 1987 the government reached the culmination of this long process. The medical was devalued, and has moved from 39 to the US dollar to around 530 today. Price controls have been lifted on all but some 30 items, and even this list will be trimmed. The budget deficits have been reduced to levels agreed with the IMF. The number of state-owned trading monopolies has been reduced from 14 to six. Exporters have been encouraged through schemes which allow them to retain between 30 and 70 per cent of foreign exchange earnings.

Ministers extol the virtues of

Continued on Page 6



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**MOZAMBIQUE 2**

A policy shift by the government

# Maputo tries to attract foreign investment

WHILE THE Marxist rhetoric lingers on, economic policy in Mozambique is increasingly capitalist and outward-looking. This is the consequence of the failure of socialism during the first 10 years of independence and a recognition that there can be no sustained recovery without western aid and investment. The policy shift is perhaps most evident in Maputo's new campaign to attract foreign investment, spearheaded by the Office for Foreign Investment Promotion (GFIE).

There are no reliable figures of the level of foreign investment in Mozambique.

market. The main areas of investment opportunity identified are in agriculture and agro-industry, but minerals, light industry and tourism also have strong development potential. Foreign investment in existing facilities, rather than in new ventures, is at the top of the agenda.

There is preference too for local partners from either the private or the public sectors. Given the very limited indigenous private sector and the government's reduced role in the economy under the reform programme, there are unlikely to be many joint ventures with local partners. Despite this,

two to 10 years, while for a similar period there is no withholding tax on profits distributed to foreign shareholders.

Category three incentives are specific to individual projects with the Council of Ministers being authorised to establish additional incentives "of investment projects of outstanding importance" to the economy.

Where a project generates and retains foreign exchange, profits may be remitted abroad using these funds. The norm is to allow exporters to retain between 30 and 70 per cent of their export revenues though it is intended to reduce this ratio to 50 per cent. Where a project can be shown to have generated import savings, then transfers abroad are allowed on the basis agreed in the original foreign investment authorisation document. Permission to remit profits is normally granted within 90 days of request.

GFIE fulfils two main functions. First, it is responsible for extracting new investment from abroad. To that end it has published details of the relevant legislation, a synopsis of a detailed investors' guide (the entire document is scheduled for publication within a month) and a booklet advising investors how to submit their project applications.

Secondly, it is responsible for transferring funds to the project. It also provides technical assistance to investors, such as help with the necessary legal and administrative procedures.

The main opportunities are in agriculture and agro-industry. Foreign investment in existing facilities, rather than in new ventures, is at the top of the agenda

Immediately after independence the government was forced to take over many Portuguese-owned enterprises in agriculture, industry and services that had been abandoned by their owners. Some enterprises were nationalised, state farms were established and with the exodus of Portuguese entrepreneurs foreign trade and some parts of domestic commerce were dominated by state trading corporations.

The policy U-turn came at the Fourth Frelimo Party Congress in 1983 which paved the way for far-reaching economic reforms, including a revamped legal framework for foreign investment, first published in August 1984. This established the GFIE with the function of attracting new investment, but it is only since January 1987 when the economic rehabilitation programme was launched that GFIE has come into its own as a largely independent agency.

GFIE has identified local sponsors in Mozambique as potential partners in ventures with foreign entrepreneurs.

Investment legislation guarantees legal protection of foreign-owned property acquired in terms of the 1984 Direct Foreign Investment Act. It also specifies the right to remit profits and re-export capital. There are three categories of investment incentives:

- General incentives providing exemption from customs and import duties on imported equipment and materials necessary for project implementation. In addition, duties on raw and intermediate materials used in the manufacture of goods for export are also waived. Foreign technical staff employed in project implementation are exempt from income tax, while there is no tax on profits transferred to reserves in terms of the agreed investment authorisation document. Firms may deduct from taxable profits the equivalent of 300 per cent of "reasonable expenses" incurred in training Mozambican personnel.
- Depending on the actual project authorisation agreement, profits earned by a new venture are free of tax from

The failure to encourage domestic investment could undermine efforts to attract foreigners since prospective newcomers pay attention to the experience of those already in the market

The second function is that of the "one-stop investment shop." Prospective investors are required to submit four copies of a very detailed investment proposal to the GFIE which appoints one of its analysts along with an official of the relevant government department to appraise the project. This may involve renegotiation of some aspects of the proposal which is then put to an evaluation committee, chaired by the director of GFIE with representatives from the central bank, the national

instability in southern Africa, will find it difficult to overcome investor reluctance.

But by establishing the investment promotion office, providing a broad range of incentives and implementing a reform package that gives pride of place to economic efficiency at the expense of political ideology, the Maputo government has gone a long way towards creating a positive environment for foreign investment.

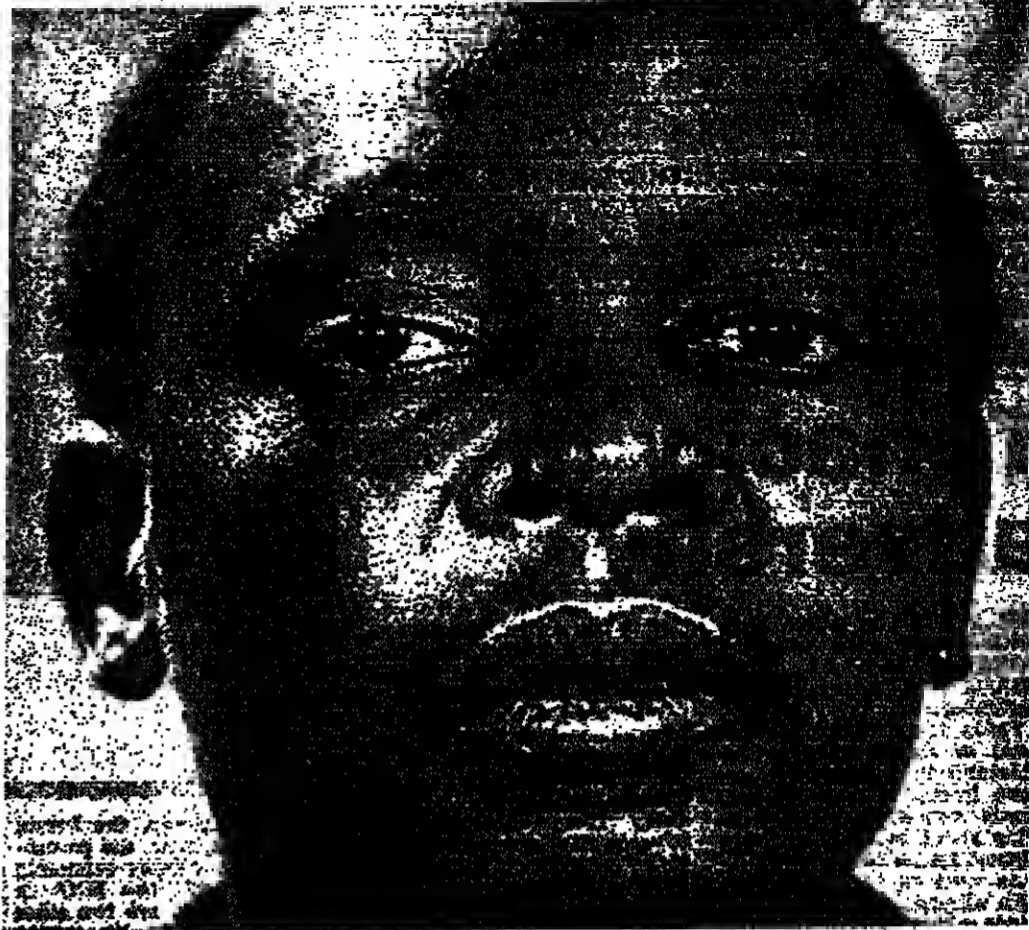
Tony Hawkins

**FOREIGN RELATIONS**

# South Africa move leads to closer links with the West

A PAINFUL decision taken by the late President Samora Machel in 1984 has proved a watershed in Mozambique's foreign relations.

After months of deliberation, and after consultations with the Soviet Union, one of Mozambique's main allies, President Machel reluctantly decided that the price being paid for his government's assistance to the African National Congress of South Africa was too high. The assistance was comparatively modest, allowing the passage of arms and guerrillas into South Africa, but - unlike Angola and Tanzania - stopping short of providing training camps.



Pascoal Mocumbi, the country's Foreign Minister

It nonetheless gave Pretoria an excuse for its support of the rebel Mozambique National Resistance, waging an increasingly successful campaign of sabotage of economic targets, including ports and railways, and terrorising the civilian population.

In March 1984, at the border town of Nkomati, President Machel and President P W Botha signed a non-aggression pact which also envisaged greater economic co-operation between the two countries. Mozambique expelled officials of the ANC's guerrilla wing, including the then chief of staff, Mr Joe Slovo. In return, South Africa was expected to close an MNR camp in the northern Transvaal, and its own commando operations in Mozambique, and stop shipments of supplies to the rebels.

The decision stunned the ANC, angered some of the black-ruled states of the region, and provoked private misgivings within Mozambique's ruling Frelimo party. But as subsequent developments were to show, although the pact failed to end South African support of the rebels, it proved critical in Mozambique's campaign to win western economic, humanitarian and military aid.

It soon became clear that the pact's first and most important objective - an end to the war - had failed. Documents captured in 1986, when the rebel headquarters at Gorongosa was overrun, showed that Mr Louis Nel, then South Africa's deputy foreign minister, had visited the headquarters months after the pact was signed, and military assistance had not ended. Mozambican ministers maintain that covert aid has continued. South Africa, for its part, claims that ANC guerrillas have continued to infiltrate through Mozambique.

Western diplomats, however, put the burden of the blame for the pact's failure on Pretoria. For the US and Britain, as well as other western states, evidence of South Africa's bad faith - together with Mozambique's willingness to undertake economic reforms, and its key role in regional efforts to reduce transport dependence on South Africa - has been critical in shaping policy towards the government in Maputo.

This combination helped avert the possibility that Washington might grant the MNR the same military and diplomatic support given to Angola's Unita rebel movement.

Unlike Unita, the MNR, some 10,000 strong and commanded by Afonso Dhlekama, does not have a credible pedigree. Created by the Rhodesian government in the mid-1970s as a way of harassing the Mozambique government, the MNR was taken over by

has made ties especially cordial.

The result is increasingly close links with the West, including institutions such as the International Monetary Fund and the World Bank. The US is the largest supplier of food aid, worth \$70m in 1987 and likely to be matched this year. Italy (\$50m in aid expected this year) and Sweden (\$30m) are among the leading donors, while last year Britain provided over \$34m in development aid, food aid and disaster relief. But Britain's most appreciated contribution is probably in the military sphere: a training scheme in Zimbabwe for Mozambican army officers.

This link between aid projects, and the need to provide direct or indirect

military assistance in protecting them, is increasingly accepted by western donors. It makes no sense to help build a bridge, for example, or a factory, only to have it destroyed by the MNR," acknowledged a western diplomat. "We must do more to ensure that the Mozambican army is better trained, better equipped, and capable of defending the projects we have backed."

There is little likelihood, however, that this assistance will go beyond military training and supply of what is termed "non-lethal" equipment such as radios or vehicles. For direct help Mozambique's hard-pressed 30,000-strong army will continue to rely heavily on its regional allies.

**THE GOVERNMENT**

- Prime Minister ..... Mario Fernandes da Graça Mansungu
- Minister of National Defence ..... General Alberto Joaquim
- Minister of Transport and Communications ..... Armando Emilio Guebuza
- Minister of Security ..... Maj-Gen Mariano de Araújo Matos
- Minister of Co-operation ..... Jacinto Soares Veloso
- Minister of State Administration ..... José Oscar Monteiro
- Minister of Education ..... Graça Machel
- Minister of Industry and Energy ..... António José Lima Rodrigues Branco
- Minister of Foreign Affairs ..... Pascoal Manuel Mocumbi
- Minister of Trade ..... Manuel Jorge Amado de Silva
- Minister of Finance ..... Paulo Adelino Mutanga
- Minister of Justice ..... Uesemang An Dauto
- Minister of Information ..... Teófilo Mondim de Silva Hunguane
- Minister of Home Affairs ..... Col Manuel José António
- Minister of Mineral Resources ..... John William Kechamilla
- Minister in the Presidency ..... Feliciano Salomão Gundana
- Minister of Culture ..... Luís Bernardo Honwana
- Minister of Labour ..... Agular Jonassane Reginaldo Neal
- Minister of Building and Water ..... João Mário Salomão
- Minister of Agriculture ..... Alexandre José Zandamela
- Minister of Health ..... Leonardo Simão
- Deputy Minister of Security ..... Maj-Gen Saléalo Teodoro Nalyambipano
- Deputy Minister of Trade ..... Daniel Gabriel Tempe
- Deputy Ministers of Transport and Communications ..... Estácio de Abreu David Mhete, Rui Jorge Loua
- Deputy Minister of Foreign Affairs ..... Daniel Sául Mbanze
- Deputy Ministers of Education ..... Paulo Adelino Mutanga, Hipólito Pereira
- Deputy Minister of Home Affairs ..... Hipólito Pereira
- Deputy Minister of Health ..... José Maria Igrejas Campos
- Deputy Minister of Agriculture ..... Alfredo Maria Capeda Gamito

Soldiers at battalion strength from Malawi and Tanzania are also either deployed in northern Mozambique, or are held in reserve, but have been unable to secure the rail link to Nacala port.

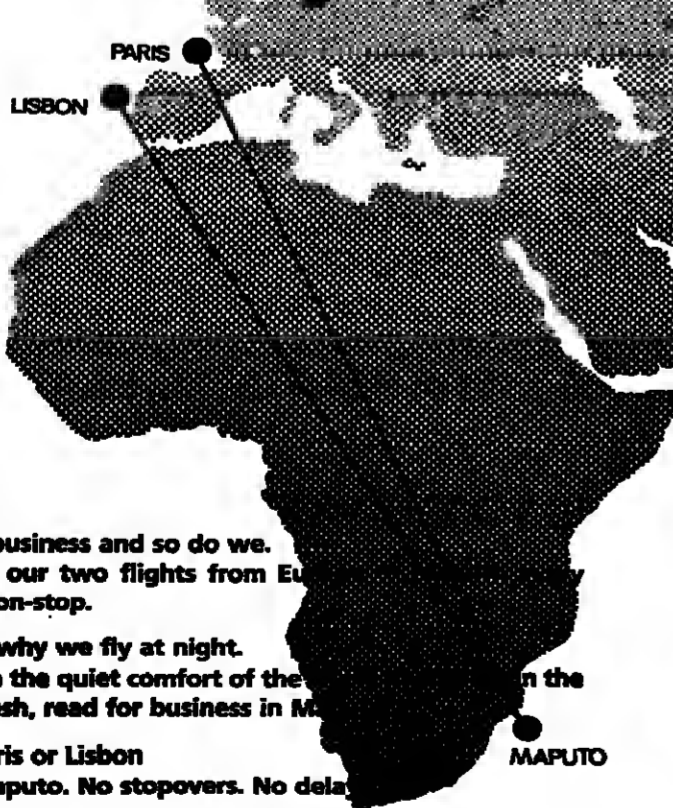
It seems clear that even with this assistance, Mozambique will not enjoy peace until South African support for the MNR ceases.

There are some signs that relations between the two countries are improving - an agreement was signed last June on the repair of cable pylons serving the Cahora Bassa hydroelectric dam, from which South Africa will take power, and in May the governments agreed to resume meetings of their joint security commission, established under the Nkomati pact.

Mozambican officials, however, remain in doubt about Pretoria's intentions. "We are waiting to see the concrete results," says a sceptical minister.

Michael Holman

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LISBON	07.30	21.00	07.00	20.00
PARIS			08.25	18.30
COPENH.			10.30	18.30
BERLIN			11.25	15.35
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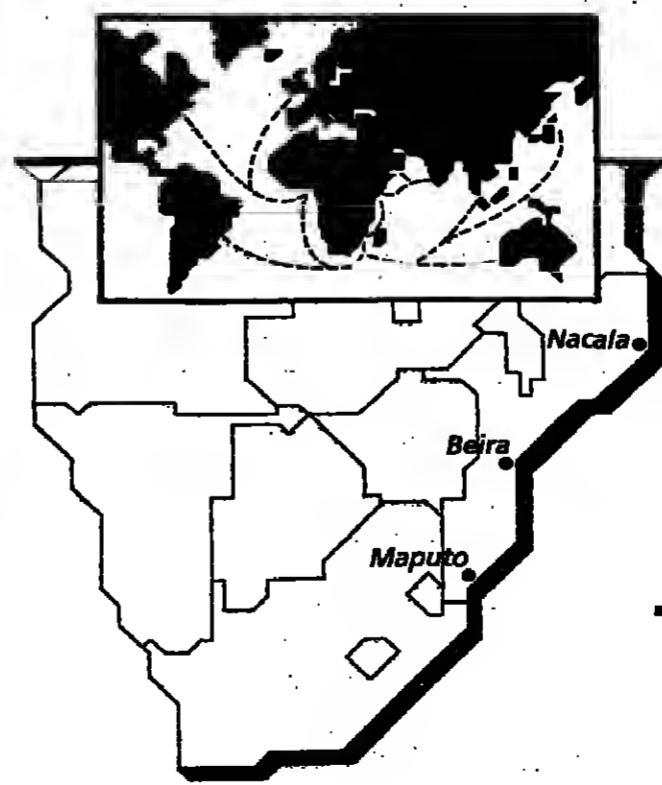
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**MOZAMBIQUE 3**

How aid might lead to self-sustained growth

**Rural areas hold economic recovery key**

THE BELIEF that a Marshall Plan-style aid programme is appropriate in contemporary Africa is currently being put to the test in Mozambique, one of the world's poorest countries. Aid inflows averaging some \$800m annually have fuelled the beginning of a economic recovery but this will only be transformed into self-sustained growth if three crucial conditions are met.

The first and most obvious is an end to the war. At present, the danger is that economic recovery will be confined largely to the main urban centres such as Beira and Maputo, but Mozambique is essentially an agricultural economy with farming providing more than 45 per cent of GDP. There will be no economic recovery, let alone renewed growth, without a return to normality in rural areas: while the recovery will not take hold in the absence of a major resurgence of agricultural exports. An improved security situation is all the more important given the need for a reliable and efficient transport system and the exploitation of mineral resources in remote areas currently threatened by the MNR rebels.

The second prerequisite concerns the management and exploitation of the economy. With the exodus of the Portuguese colonialists in 1975, coupled with a literacy rate at the time of a mere 7 per cent, Mozambique was ill-equipped to manage a modern economy. The large-scale rehabilitation programme currently underway - most evident in transport - will pay lasting dividends only if it creates human skills to operate, maintain and repair machinery, vehicles and port installations. So critical is the shortage of technical skills and that of managerial expertise that a period - indeed a prolonged one - of "judicial management" by the aid agencies is likely to be necessary to ensure that rehabilitation is translated into self-sustaining expansion.

This requirement is reinforced also by the fact that a high proportion of existing aid inflows are emergency in character and therefore unlikely to provide a basis for subsequent economic growth. In recent years about 80 per cent of all imports of goods and services (excluding interest payments) were funded from grants and loans.

Third, not even the most sanguine observers believe that the aid agencies, on their own, can or will turn the Mozambique economy around. Admittedly, an appropriate pol-

icy framework has been developed by the IMF and the World Bank, but this is not going to revivify the economy in the absence of a major increase in private sector investment. Because the indigenous private sector is tiny, meaningful levels of investment will be achieved only if foreign companies are prepared to take the plunge on a scale not experienced elsewhere in the region in recent years, with the possible, and partial, exception of Botswana.

The magnitude of the economic recovery task can hardly be exaggerated. Between 1980 and 1986 production fell by about a third while per capita incomes halved. Exports fell 60 per cent from a peak of \$2.5bn in 1980 to an estimated \$96m last year while the ratio of exports to GDP plunged to below 4 per cent in 1986 from more than 17 per cent in the early 1980s.

Traditionally, Mozambique relied on substantial earnings from invisible transactions - transport revenue from its ports and railways and the remitted income from migrant

BALANCE OF PAYMENTS (figures in \$m)						
	1981	1985	1986	1987*	1988*	1989*
Exports	281	77	79	96	105	130
Imports	571	424	547	645	705	830
Trade balance	-290	-347	-468	-549	-600	-700
Invisible balance (excluding interest)	90	24	46	-28	-19	-5
Debt-servicing	345	382	544	504	456	410
Financing required	775	705	985	1,061	1,135	1,085
Aid inflows	775	388	487	593	663	653
Debt relief	-	183	-	408	394	284
Reserves	-	153	536	-	-	-
Financing gap	-	-	-	-	126	142

other consumables. External difficulties were compounded by the worsening foreign debt situation. At the end of 1986, disturbed foreign debt was estimated at \$3.2bn, of which just over one-third represented loans from the Eastern bloc and 40 per cent loans from OECD countries and banks, while outstanding arrears amounted to \$1.2bn. The debt-service ratio (outward debt repayments as a ratio of exports) was 275 per cent, despite the 1984-85 rescheduling agreements with Paris Club creditors.

Continuing dependence on the combination of aid flows and debt relief is evident from the table, showing current account outflows and amortisation of foreign debt averaging \$1.1bn annually during 1987-90. Although exports are forecast to double between 1985 and 1990, the trade gap will double from \$350m to \$775m, leaving a current account deficit by 1990 in the region of \$680m.

Aid inflows - excluding emergency assistance - are forecast to average \$493m annually over this period, still leaving a financing gap of \$400m a year. The pre-Toronto summit expectation was that debt relief would contribute some \$900m of the required \$1.2bn, leaving new commitments of \$400m still to be secured. While the Toronto initiative should reduce the financing gap still further, the fact that aid flows and debt relief between them will be called upon to meet almost 90 per cent of Mozambique's foreign obligations highlights the continuing and massive imbalance between external assistance and domestic resources.

Acknowledging that such a situation is unsustainable over the medium term, Mozambique launched a far-reaching economic recovery programme in January 1987, encompassing a

broad range of IMF/World Bank-type reforms. The metical was devalued from 39 to the US dollar 18 months ago to its current level of 680 to the dollar. This has been partially successful in boosting exports, realigning domestic prices and narrowing the black market premium from some M1,450 to the dollar to around M600 in mid-1988.

Price controls have been relaxed, reducing the number of products with fixed prices from 46 to just over 30 while massive price and wage increases were announced

after major devaluations. Inflation last year was estimated at 166 per cent and this has had a severe impact on low-income groups in urban areas where it costs a month's salary to buy a shirt.

Inflation is forecast to slow substantially this year to 60 to 70 per cent, partly reflecting the slower rate of currency devaluation allied with sharply higher interest rates and a stabilisation of the fiscal deficit. With military spending absorbing a third of the national budget, policies to reduce the budget deficit have focused - on

the revenue side - on broadening the tax base and improving collection, while on the expenditure side subsidies are being cut and capital spending is being tied to aid flows.

On the external side, measures to improve economic efficiency include a reduction in the number of products that must be traded through monopoly state trading enterprises from 11 imports and three exports to five imports and one export. Import liberalisation also includes plans to allow at least some imports without quotas while exports are being encouraged by the retention scheme that allows exporters to retain between 30 and 70 per cent of the foreign currency earned.

It is vital too that Mozambique diversifies as well as expands exports. Last year exports accounted for some 40 per cent of total exports while cashew nuts contributed 34 per cent. The balance was made up largely of agricultural products - cotton, tea, sugar, copra and citrus - and refined petroleum. Clearly, as and when

agricultural recovery takes hold, there is scope for a strong recovery in farm exports, produced both on family farms and on estates, but prawn production appears to be close to its limits of commercial exploitation. This means that agricultural exports must expand rapidly if the ambitious 20 per cent annual growth rate target in export volumes is to be met.

A combination of policy reform and aid inflows has reversed the prolonged downturn in the economy over the past two years. Real GDP increased 4.2 per cent in 1986 and a further 4 per cent last year with growth being spearheaded by an 18 per cent expansion in manufacturing and 5 per cent in construction. The war continued to affect output in agriculture which was little changed and in transport where there was an 8 per cent decline.

While the recovery plan projects an increase in the growth rate to 6 per cent this year, officials expect growth to be slightly slower than in 1986-87. But over the 1986-90 period

growth is forecast to average between 4 and 5 per cent annually, with the population increasing at 2.6 per cent a year, implying a steady recovery in real living standards.

The Marshall plan strategy and the gradual return to decentralised, market-determined pricing and output decisions have generated an improved climate for business and investment decisions, but for growth to become self-sustaining, as distinct from heavily aid-dependent, it is essential for the ordinary Mozambican, in the words of Finance Minister Magid Osman, to become "more self-reliant" and less dependent on the state.

There could be no clearer rejection of the dogma of central planning and state control than Maputo's present emphasis on private initiative, foreign investment and reliance on market signals. If the war can be scaled down, then the recovery now evident should gather momentum during the 1990s, but there is a very long and difficult road ahead in rebuilding, virtually from scratch, an economy that even in its heyday was little more than an undeveloped colonial enclave.

Tony Hawkins

**There could be no clearer rejection of the dogma of state control than Maputo's current emphasis on private initiative**

workers on the South African mines - to cover its trade gap. But the decline in transport earnings from Meticals 3bn in 1980 (\$615m) to M11.7bn in 1985 (\$412m) at a time of plummeting exports and stagnant worker remittances resulted in a near-doubling in the current account deficit from M13.7m in 1980 (\$4.2 bn) to M25.2m in 1986. This occurred, despite stringent controls on imports which virtually halved from \$800m in 1980 to \$490m in 1985.

As the war escalated, so the share of food imports in the total doubled to 37 per cent while imports of spare parts and equipment declined by some 25 per cent. Between 1980 and 1986, the import/GDP ratio fell from 37 to only 14 per cent, underscoring the severity of import starvation, a problem exacerbated by the need for substantial imports of food and

**BANKING**

**Challenges that must be tackled**

ALTHOUGH MOZAMBIQUE operates only a very rudimentary banking system with virtually no effective competition, monetary policy is playing a key role in the recovery programme.

The banking system that emerged from the nationalisation and consolidation of the late 1970s is dominated by the Bank of Mozambique (BDM) which operates both as a central bank and a state-owned commercial bank. It has a monopoly of external transactions though a decision in principle has been taken to allow the country's sole privately-owned bank - Banco Standard Totta, part of the Standard Chartered group - to operate with a partial foreign exchange licence soon.

The central bank accounts for about three-quarters of the credit in the economy, lending both to state-owned enterprises and the private sector. A further 20 per cent is provided by another state-owned institution, the Banco Popular do

Desenvolvimento (BPD), which lends mainly to agriculture, while Standard Totta's market share is put at 5 per cent. The bulk of bank lending has been to the public sector with state and so-called "intervened" enterprises - those picked up by the government when their Portuguese owners fled - accounting for some 87 per cent of outstanding bank credit in 1985.

In the first half of the 1980s, domestic credit trebled, resulting in excess liquidity in the system at a time when output was falling. People were increasingly reluctant to hold money with farmers insisting on bartering their crops for essential inputs or scarce consumer goods. At the same time, many Mozambicans had access to limited amounts of foreign currency in the form of South African rands brought in by returning migrant workers.

By the mid-80s, barter and foreign currency transactions predominated in the economy, resulting in substantial idle

metals balances in the banks. Bank lending took three main forms - loans to government to fund the budget deficit, loans to cover enterprise losses, and on-lending of aid inflows.

All this changed when the rehabilitation programme was launched in January 1987. Interest rates were raised from a range of 0 to 6 per cent for deposits and 3 to 10 per cent for loans to between 9 and 20 per cent for deposits and 12 and 35 per cent for loans. Overall credit ceilings were set and new criteria emphasising commercial principles were established for the evaluation of bank lending. In 1988, for instance, credit is being allowed to increase 45 per cent with a marked reduction in real lending to government agencies.

To mop up excess liquidity and help finance the budget deficit the government issued 10bn meticals (\$1.7m) of treasury bonds early in 1988. The five-year bonds will be redeemed in 1993 at their face

value of 10,000 meticals plus a 60 per cent premium designed to offset inflation. Interest is payable in US dollars at the rate of \$1.3 per bond, equivalent to a current yield of some 7.5 per cent.

Interest can be used to pay for imports, to buy goods in the foreign currency shops or to purchase travellers' cheques for overseas trips. Whether such bond issues will retain their popularity remains to be seen, given inflation forecast at 60 per cent in 1988 alone, but the creation of a vehicle to mobilise domestic savings, with the added sweetener of interest payable in foreign currency, is obviously an important step forward in developing a domestic capital market.

Three important challenges to be tackled include the need to provide bridging finance for rehabilitation projects which may need to be carried for a prolonged period before breaking even. A key problem waiting in the wings is

that of non-performing bank loans which will probably necessitate a government rescue package. Thirdly, as elsewhere in the economy, training of skilled bank staff will remain a top priority for the foreseeable future.

But for the immediate future, monetary policy will be called upon to restrain credit growth and help check inflation, while contributing to the financing of the budget deficit. This will continue to be done by way of credit ceilings and high nominal interest rates, though there are plans to move to a system of monetary base control, using reserve requirements, later on in the programme. At the same time, it will be necessary to ensure that credit is available to those sectors of the economy with the capacity to supply goods to the domestic market and generate foreign exchange and jobs.

Tony Hawkins



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**MAPUTO**

**MOZAMBIQUE 4**

The changing structure of the country's industry

**Strong recovery potential**

AFTER FALLING 25 per cent in the first half of the 1980s, manufacturing output has recovered in the past three years especially during 1987 when production rose some 20 per cent.

Industry's share in GDP peaked at 13 per cent just before independence in the mid-1970s, declining to only 7 per cent by 1985. Manufacturing was particularly hard hit by the collapse of export crop production since not only was there a fall in processing activity, but industry was starved of the foreign exchange needed to purchase imported inputs.

During the 1980s, industry structure has changed, reflecting the reduced role of food processing. At independence, three sectors accounted for more than half industrial production, with food processing contributing just over 30 per cent of the total while beverages and textiles accounted for 10 per cent each. By 1986, the share of foodstuffs in the total had halved while textiles and clothing accounted for one-third of the total and beverages and tobacco 26 per cent.

There are an estimated 575 manufacturing enterprises in Mozambique, most of them state-owned or "intervened enterprises", meaning that the

state was forced to take over management of the businesses abandoned at independence by their former owners. Some two-thirds of industrial output emanates from the state-owned sector.

In the wake of the steep decline in manufacturing activity, there is potential for a strong rebound, based initially on increased capacity utilisation, which is currently estimated to average 35 per cent, ranging from a low of 9 per cent in soap production to a high of 88 per cent for cigarettes.

But because so much manufacturing activity is highly import-dependent, substantial increases in imported inputs are a prerequisite for higher capacity utilisation rates. The recovery programme projects a 50 per cent increase in imports for manufacturing industry over the next three years with raw materials absorbing three-quarters of the import bill while spare parts and capital equipment make up the balance.

The top priority is increased production of consumer goods for distribution in rural areas - the logic being that this will encourage increased cash crop production by peasant farmers. Second on the list is the production of intermediate items such as textiles, cement

and building materials while the planners are also anxious to boost output of those products, like beer and cigarettes, that generate increased government revenue.

The massive devaluation of the currency can be expected to boost import-replacement activities and encourage manufacturers to utilise local rather than imported raw materials where at all possible. At the same time, devaluation has increased the local currency cost of imported capital equipment and spares by a factor of 15 and this could well jeopardise industrial rehabilitation in some cases.

Mozambican officials acknowledge this problem, but point out that major devaluation was inevitable and that its impact on the rehabilitation programme is being cushioned by aid financing.

It is argued too that the industrial policy environment has improved out of all recognition following the realignment of the exchange rate, the moves to allow greater managerial autonomy in state enterprise, and increased flexibility both in pricing decisions and access to foreign exchange. The number of industrial items subject to fixed prices has been reduced to only seven from more than 40 three years ago.

But given agriculture's dominant position in the economy, it seems clear that the aid-fuelled industrial revival will run out of steam unless or until there is a major recovery in rural demand for domestic manufactures and increased farm production for local processing. Agricultural recovery rather than aid is the key to sustained industrial growth.

Mining's role in the economy is peripheral with production accounting for 0.7 per cent of GDP in 1981. Output has since declined as the war has worsened to the point where in 1986 its share of GDP was less than 0.25 per cent.

Coal is the most important product with known reserves in excess of 600 tonnes. After nationalisation in 1976 production at the Moatize mine doubled, reaching 330 000 tonnes in 1981, but this exceeded the capacity of Beira port and production was subsequently reduced when the line to the sea was cut by the rebels. By 1985 production had plummeted to less than 50,000 tonnes annually. There are ambitious plans to produce up to 5m tonnes annually, primarily for export, but this will not be possible without a major improvement in the security situation and massive investment in infrastructure, including the port of Beira itself.

Because only limited prospecting has been undertaken, the full potential of the mining industry is simply unknown, but a recent report on mineral potential in the region identifies 11 projects in Mozambique, including bauxite near the Zimbabwe border, graphite, fluorite, platinum-nickel and diamonds.

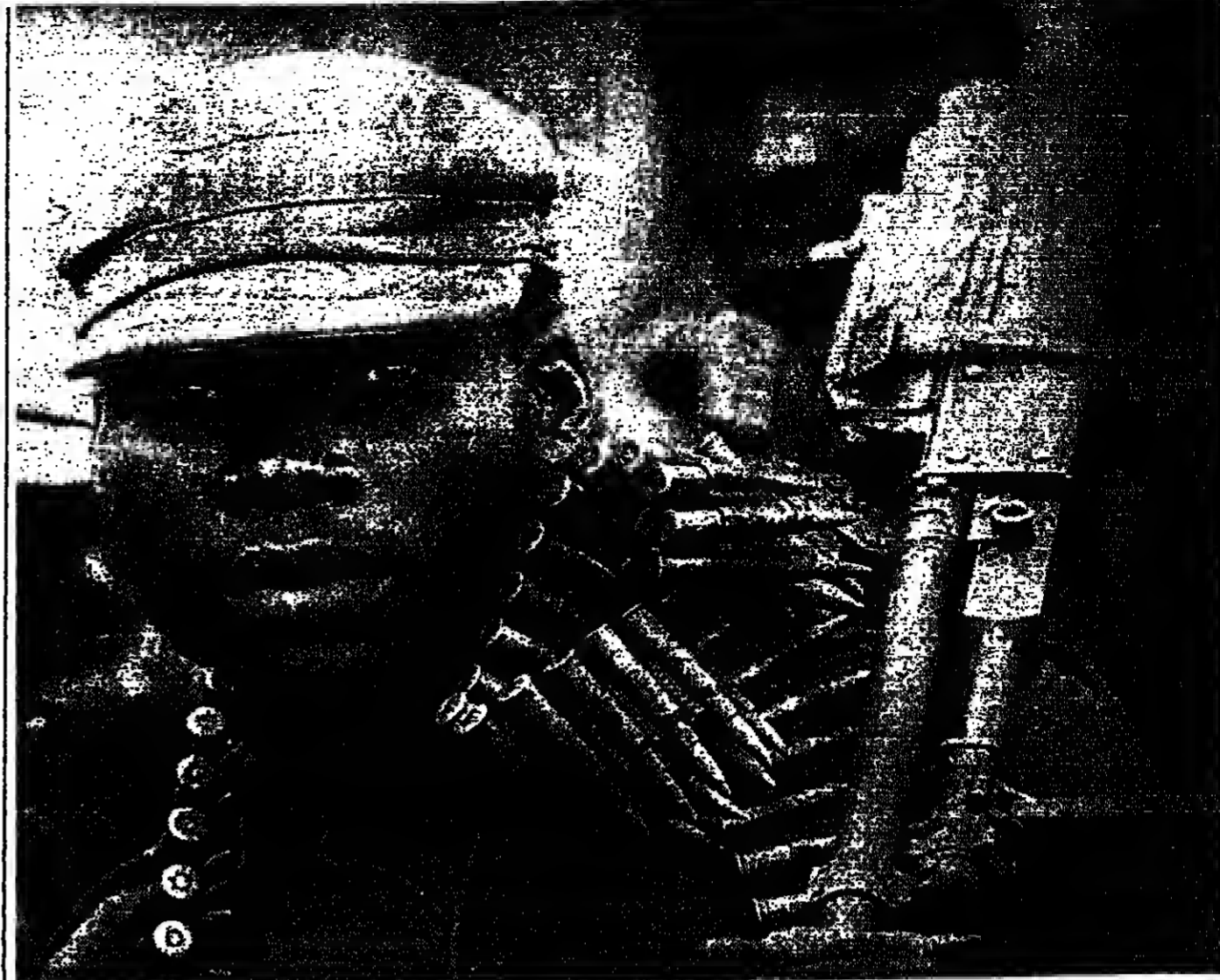
Mozambique also possesses what are believed to be the world's largest reserves of tantalite and used to be the world's second largest producer, but last year exports were worth only \$400,000. Two years ago, Lurio signed an agreement to mine gold near the Zimbabwe border while the US Edlow group is investigating a titanium project in the north.

There is potential too to develop a steel complex at Tete based on high-quality iron ore deposits.

Tony Hawkins



Food processing is not as significant as it was, but cashew nuts are still an important export



An armed soldier on the look-out in Gorongoes, about 100 kilometres north-east of Chimoi

**AGRICULTURE**

**Guerrillas strike at farms**

NO SECTOR of the Mozambican economy is more important, or in more of a shambles, than agriculture. In peacetime, farming should provide 85 per cent of employment and nearly half of the gross domestic product. Agriculture and prawn fishing together account for all but a fraction of exports.

But since independence in 1975 the story of Mozambican agriculture has been one of catastrophic decline. Most of the Portuguese colonisers abandoned their plantations to the country's new Marxist-Leninist rulers and their vision of a land tilled by the tractors of giant state farms and co-operatives. Nearly a fifth of the rural population were collected into communal villages.

The effects of such policies (now discredited and in some cases reversed) have been far surpassed by the impact of the guerrilla war since South Africa began supporting the Mozambique National Resistance in 1980. MNR rebels waging a campaign of terror have brought farming to a standstill in many areas, making roads impassable, isolating villages from their markets, destroying machinery and sabotaging tea and sugar factories. The two agriculturally rich provinces of Zambezia and Nampula, home to 40 per cent of Mozambicans, have been badly hit by the war.

Natural disasters - droughts, floods, cyclones and insect pests - have simply compounded the misfortunes of the Mozambican peasant. Out of a national population of some 15m, about 1m people have become refugees in neighbouring countries; a similar number have fled their homes in the countryside to cluster as miserable *deslocados* in safer zones inside Mozambique and a further 2m peasants who stayed at home are unable to feed themselves, let alone sell their surplus to the cities.

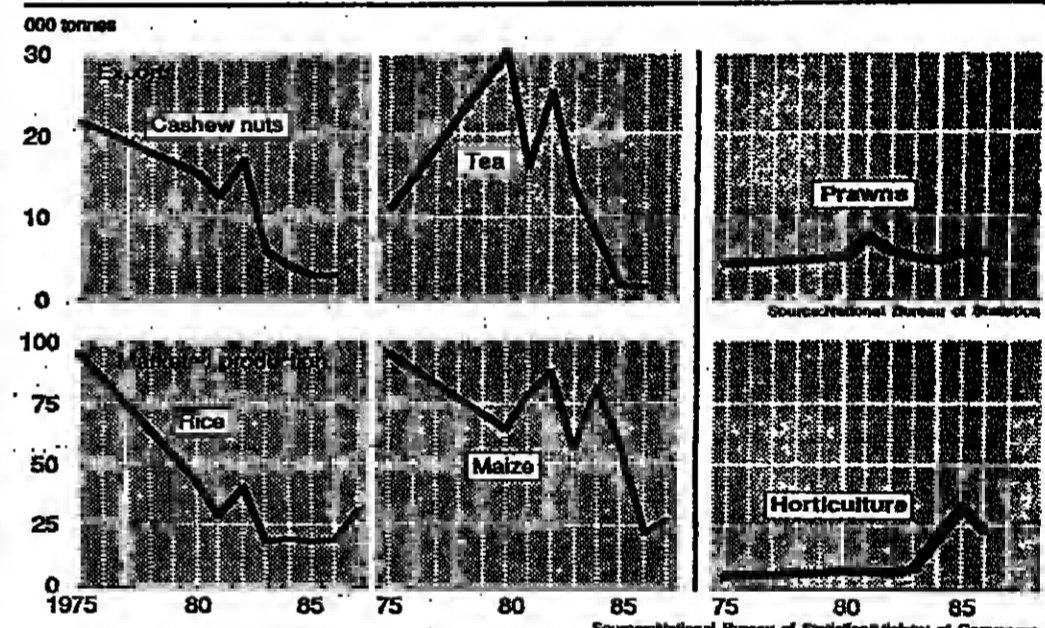
Statistics tell the tale only too well. Between 1980 and 1986 total exports fell nearly 75 per cent. Cashew nut exports fell from 15,000 to 3,100 tonnes, sugar exports from \$3,800 to 19,500, and tea exports from 30,000 to 1,500. Copra (from coconuts), cotton, citrus and other exports suffered similar fates. Significantly only the prawn business, operating safely offshore, was able to maintain performance and record a rise in exports from 5,000 tonnes to 5,400.

Food crops have also fared badly. The areas planted, marketed yields and the output figures have mostly fallen. Marketed cereal production now accounts for only about 7 per cent of Mozambique's requirements, and foreign donors have been asked for nearly 1m tonnes of grain and other foods this year. In relation to the number of inhabitants Mozambique's needs are much greater than those of Ethiopia.

Vegetable production, on the other hand, has soared in the "green zones" around the cities, a development which reflects the relative security of such areas compared to the rest of the countryside. Agricultural extension officers and foreign aid workers have in many instances been driven back to the outskirts of provincial capitals.

"Development of the country cannot rely on vegetable production alone," laments a

**Agriculture in decline**



Sources: National Bureau of Statistics/Ministry of Commerce



No shortage of food in Maputo market

foreign agricultural expert resident in Maputo.

In the meantime, donor operations can have undesirable side-effects. Their development projects become targets for rebel attacks, thus endangering the very people they are trying to help, while their aid shipments help to induce a sense of dependency. Already it is said that some wily peasants sell every grain of their maize on the commercial market in the knowledge that they can feed their families with free food aid.

The essential question about Mozambique's Economic Recovery Programme, which in 18 months has already filled the city shops, is whether it can revive the rural areas, revitalise peasant agriculture and fulfil its target of increasing export crop volumes by 15 per cent a year until 1990.

Like everything else in Mozambique, it depends on the war. All the talk of higher farm prices, incentives for producers, liberalised marketing and rural credit schemes can only be seen as academic posturing in an embattled and hungry village inaccessible by road, short of seeds, and without consumer goods or a viable money economy.

First reports from the government are mixed. State and private commercial farms, adversely affected by sabotage and insecurity, performed poorly last year but the peasant family sector managed to increase marketed production

of food and cash crops by 27 per cent. In the more secure regions traders have taken up the challenge to inject some life into the economy, buying crops from villagers and selling them consumer products such as radio batteries.

Meanwhile, the state of the cashew industry - cashews are a smallholder crop and Mozambique's most important agricultural export - is giving the government particular cause for concern. A report by the Food and Agriculture Organisation last year said that cashew production, already down to a quarter of pre-independence levels, was threatened by neglect and a lack of replanting over the past 15 years.

The FAO suggested that \$35m was required over the next few years to restore the industry, which once made Mozambique the producer of nearly half the world's cashews. Now the Mozambican share has fallen to a tenth of world production and the industry is characterised by poor management and quality control. Many of the valuable cashew nuts are eaten as basic food for want of anything else.

At least cashews and other cash crops have scope for expansion in a country which so far uses only a small proportion of its available arable land. The relatively successful prawn industry appears to

have neared the limits of expansion.

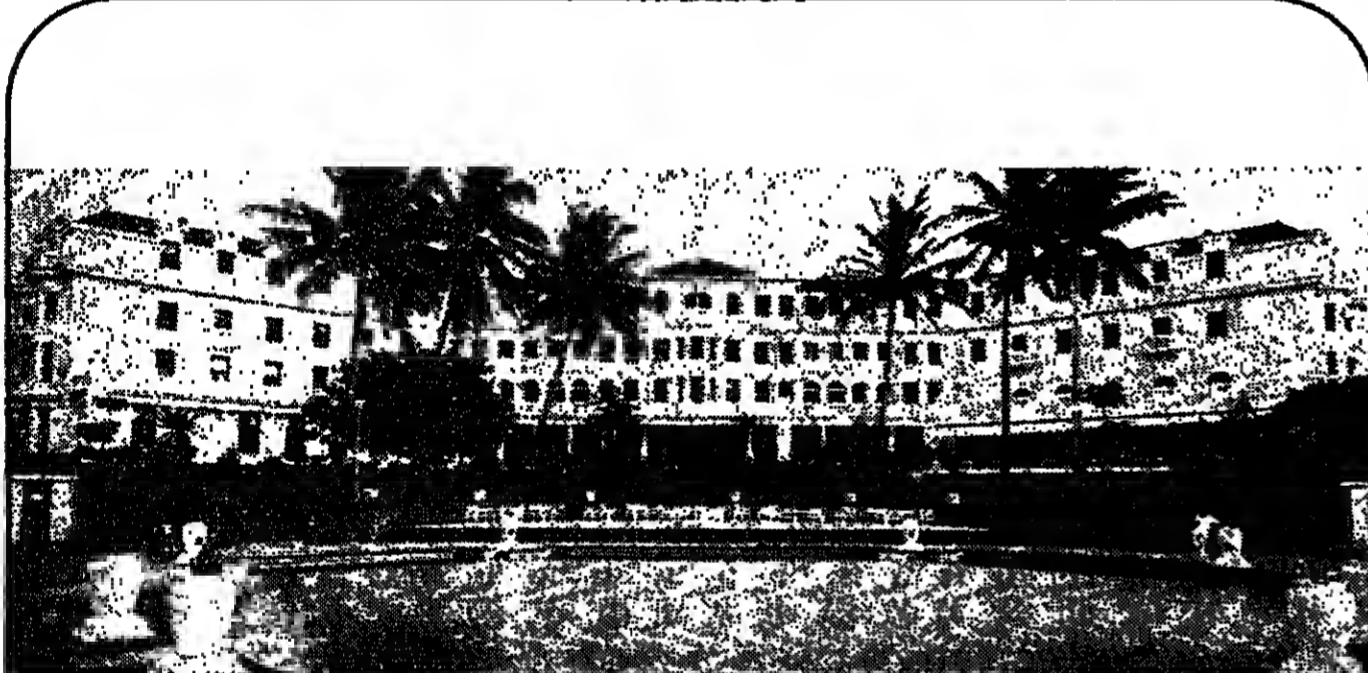
The government is anxious to attract foreign investors into commercial agricultural projects centred on protected trade corridors from the hinterland to the ports of Beira, Nacala and eventually Maputo.

Lurio (through Lomaco, its joint venture with the Mozambique government) has made the largest investments, partly to protect its interests in neighbouring Malawi and Zimbabwe. Lomaco exports cotton, citrus and tomato paste, but says that 16 per cent of its costs go towards security, including a private army.

Other investors and aid organisations are looking at tobacco, timber, sugar, citrus and other products, but even if the rebels allow them to succeed, it will be impossible to replace the 2.5m smallholder families as the engine of the Mozambican economy.

"Industries in some sectors cannot sell their products mainly because the rural market is very limited today as a result of the security situation," says Mr Antonio Branco, the Industry Minister. "The key thing is to increase exports, increase the revenues of transport services and to develop agriculture - otherwise the other sectors such as construction and industry will be completely constrained."

Victor Mallet



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**MAPUTO-MOÇAMBIQUE**

**MOZAMBIQUE 5**

The country is becoming an important transit route for regional trade

# Trade corridors may play role in economic war against South Africa

WITH ROADS and railways vulnerable to guerrilla ambushes and massacres, the only safe way to travel around Mozambique these days is by air. It is therefore all the more remarkable that Mozambique, despite the collapse of its domestic transport network, is becoming an increasingly important transit route for regional trade.

Historically Mozambique's Indian Ocean ports were designed for just such a role, with Nacala in the north serving landlocked Malawi, Beira in the centre catering for landlocked Rhodesia (now Zimbabwe), and Maputo in the south taking traffic from Zimbabwe, Swaziland and the Transvaal Province in South Africa.

Port and railway charges remain a significant source of foreign exchange for Mozambique, but rebel attacks and South Africa's moves to divert trade away from Maputo to its own ports have drastically reduced the transit business. Official figures show that international rail traffic through Mozambique fell to 2.3m tonnes in 1986, about one fifth of the level at independence in 1976. International cargo handled at the ports fell from 13.8m tonnes to 8.6m.

Mozambique is now trying to reverse the trend, in two completely different ways. On the one hand, it wants to increase South Africa's use of Maputo and has accepted South African technical assistance to rehabilitate the cranes and other equipment. On the other hand, Mozambique has become the linchpin of efforts by South Africa's black neighbours to reduce their trade dependence on Pretoria. Working through the nine-member Southern African Development Co-ordination Conference (SADCC) - a body set up in 1980 to reduce dependence on South Africa - foreign donors have pledged hundreds of millions of dollars to restore the trade corridors through Mozambique. Some donors see the projects as an alternative to economic sanctions against South Africa;



The port of Maputo: a sharp decline in international cargo

others regard them as a way of reinforcing such sanctions, but all agree that Mozambique will benefit.

It remains to be seen if the corridor system can work effectively at a reasonable cost. In a successful corridor Mozambique would benefit from higher foreign exchange earnings, and from the creation of a relatively secure strip of land where normal life resumes and agricultural projects can proceed without danger. Eventually Mozambique officials would like to expand the safe zones on either side of the corridors.

But in practice no corridor is completely safe. The short Beira route is the best and it takes 6,000 Zimbabwean troops to keep it that way. Work by a French-Portuguese-Canadian consortium to repair the Nacala railway was suspended when the participants said it was too dangerous and requested 2,000 troops to guard the line. The Limpopo corridor to Maputo, from southern Zimbabwe, due to open shortly needs a similar number of soldiers, as will the line of soon to be refurbished electricity pylons running from the Cahora Bassa dam to South Africa.

Mozambique's army of some 30,000 is neither big enough, good enough or rich enough to manage on its own, and the donors led by Britain - are coming round to the idea that they need to supply military assistance to protect their economic aid. Meanwhile Zimbabwe's involvement in Mozambique is both expensive and frustrating for Zimbabwe (its railway workers and soldiers accuse their Mozambican counterparts of incompetence) and calling for the Mozambicans (who accuse the Zimbabweans of arrogance).

Progress overall on repairing Mozambique's transport infrastructure has been steady but slow. Protected convoys ply the road between Malawi and Zimbabwe through Tete. The road and rail links to South Africa and Swaziland are subject to periodic guerrilla attacks, and the railway from Tete to Beira has been closed by sabotage. The three main routes - Beira, Limpopo and

Nacala - are in various stages of repair.

**Beira Corridor:** The 314km route from eastern Zimbabwe to the sea includes a railway, a road, and an oil pipeline and has so far been the focus of SADC's efforts in Mozambique. A \$60m 10-year programme is under way to restore the corridor. Last year the port handled about 2m tonnes, compared with a record 4.3m in 1985 but up from 1.4m in 1986.

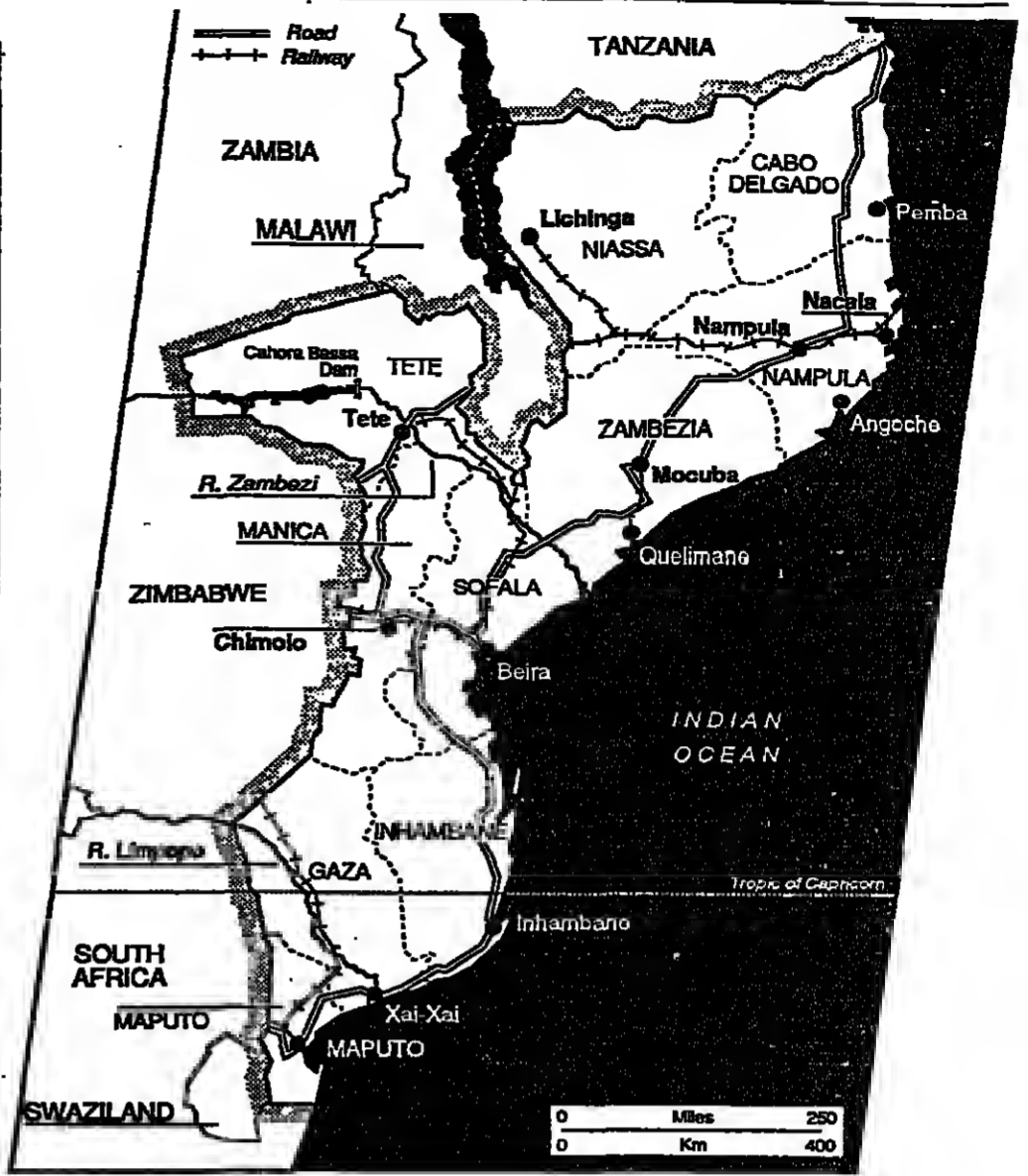
Sabotage attacks on the route are down by two-thirds so far this year, but some rehabilitation projects at the port are more than 12 months behind schedule or have been poorly executed, constant dredging of the channel is a necessity, and the town still suffers from power cuts, water shortages and a lack of amenities. Ambitious predictions made for the Beira corridor in 1987 have since been scaled down, although it already handles about a third of Zimbabwe's overseas trade. A quarter of Zambia's copper exports are also using Beira.

**Limpopo Corridor:** Attention is beginning to shift towards this line running from Zimbabwe to Maputo, where there is plenty of spare capacity at the port. An inspection train covered

the entire distance in May. Britain has already funded \$14m of repair work and a further \$200m is being sought, of which \$60m was raised at a donors' meeting last month. At present the line - mostly straight and level in contrast to the Beira railway - could probably handle about 1m tonnes a year, rising to 3m as work progresses and assuming adequate security. More than 500km of the line is inside Mozambique and vulnerable to commando raids from nearby South Africa, but the terrain is relatively open and not favourable for guerrillas.

**Nacala Corridor:** Nacala, recently rehabilitated, is the region's best deep-water port, but it is lying idle except for the movement of some food aid and other local traffic for Nampula. Despite the efforts of Malawian troops and Mozambicans trained by a private British company, Defence Systems, rebel attacks have forced the suspension of the repair work on the railway and there is no through traffic. In the meantime, Malawi is spending 40 per cent of its foreign exchange earnings on conducting its trade through distant South African ports.

Victor Mallet



## Machaze: the everyday story of just another little town

# Where surviving is the name of the game

ECONOMIC REFORM does not mean much in a place like Machaze, a small country town in the southern part of Manica Province.

By Mozambican standards Machaze, recaptured from the rebels seven years ago, has been doing quite well this year after a period of drought. Although there is insufficient food in the area, no-one appears to be starving. A few villagers have been killed or had their ears chopped off by the rebels, but most of the incidents date back several years ago. The inhabitants

could probably walk 50km from the town these days without being attacked.

Here in Machaze there are signs of normal life which are completely absent from many other Mozambican settlements - a maize crop in the fields, wandering goats and chickens, a functioning water well, even a group of carpenters working in the shade of a tree.

But the idea that Machaze is in any way integrated into the rest of the Mozambican economy is an illusion. Vehicles and agricultural marketing all belong to the

past. The inhabitants of Machaze are simply surviving, with a little help from the food airlifts of foreign donors.

Access is by aeroplane only. Throughout Mozambique roads are mined and bridges destroyed. Mr Virgilio Joao Nhanso, the district administrator, says there has been no traffic between Machaze and the provincial capital Chimio since 1984. That was the year the orphanage was set up for the children whose parents were killed in the conflict - 18 of them have yet to find homes.

"Despite the good rains there really isn't food for all the people because there has been a problem of lack of seeds," says Mr Nhangua. "Some have food, others don't."

According to Mr Fungai Simbi Chinhacata, the local medical officer, about 40 per cent of the children in Machaze are malnourished. "We have a very serious problem with children with anaemia," he says outside his rudimentary clinic. "We're not sure whether it's parasites or malnutrition. Two died this month."

Medicines, inevitably, are in short supply.

Mr Chinhacata's own story is typical. His monthly salary is worth about \$25. When he worked in Zambezia Province he suffered four ambushes (driving in an ambulance was no guarantee of safety); his wife, a nurse, was injured in the arm by a bullet; he himself lost all his belongings, burnt to ashes in one of the attacks, and his brother-in-law was killed. The Mozambican countryside is dotted with government-held islands like Machaze. A few are better;

some are much worse. In many of the town centres the once-pretty Portuguese architecture is pockmarked with bullets or close to collapse from lack of maintenance.

Factories, clinics and schools have been destroyed by the rebels. Amenities such as electricity, transport and telephones have long since disappeared. To reunite Mozambique into a network of viable farming communities will need a lot of money, and a lot of determination.

Victor Mallet

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MAIN OFFICES IN MAPUTO AND NAMPULA

## MOZAMBIQUE 6

## Tenacity in spite of adversity

Continued from Page 1

private enterprise and foreign investment and the need to reduce the role of the state, looking only momentarily non-plussed when asked how values endorsed by Mrs Thatcher can be reconciled with Mozambique's official socialist ethos.

"The fact that growing financial imbalances require that we reduce or abolish some price controls or subsidies, or that the gigantism of some state farms or enterprises requires their rationalisation is in no way incompatible with our desire to build a society where all benefit equally," explains Dr Machungo.

Given the pedigree of the reform process and the careful consultations and explanations that have marked each stage, there is no reason to believe that they are not deep-rooted

and here to stay (notwithstanding the fact that some party officials may yearn for the days of Marxist orthodoxy).

The reforms, backed by aid running at some \$800m annually, are bringing results, at least in the main towns where shops are better stocked (though at prices which are beyond most workers) and manufacturing and industry are picking up.

But the critical test is in the ravaged countryside, where the recovery in food production and export crops such as cashew nuts, tea, cotton, and sugar is either tentative or yet to get under way, and where the road and railway routes are vulnerable to sabotage.

It is in the rural areas that the military and economic battles are being fought, and the government has yet to emerge the winner.

## PEOPLE'S REPUBLIC: THE KEY FACTS

Population	14.74m
Head of state	President Joaquim Alberto Chissano
Independence date	June 25 1975
Ruling party	the Frelimo Party
Surface area	789,380 sq km
Coastline	2,470 km
Neighbouring countries	Tanzania, Malawi, Zambia, Zimbabwe, Swaziland, South Africa
Capital	Maputo (formerly Lourenço Marques), population approx 1m
Provinces	Niassa, Cabo Delgado, Nampula, Zambezia, Tete, Manica, Sofala, Gaza, Inhambane, Maputo
Official language	Portuguese
Exchange rate (August 2, 1988)	\$1 = Metical 584
Main imports	Agricultural and industrial semi-finished and petroleum products, spare parts, textiles, consumer goods
Main exports	Prawns, cashew nuts, cotton, tea, copra, citrus, textiles, tyres, coal, timber
Imports (1987 est)	\$645m
Exports (1987 est)	\$396m
GNP (per capita)	\$272 (source: International Tourist Guide, 1986)
Population growth rate	2.6 per cent
Population distribution	Urban/rural: 13/87 per cent
Literacy rate (1986)	30 per cent

## Agreement with Portugal and South Africa on Cahora Bassa

## Better prospects for dam

A GUERRILLA target when Mozambique was under Portuguese rule, its power lines sabotaged in the 1980s by MNR rebels, the Cahora Bassa hydroelectric dam has so far proved a costly white elephant.

Efforts now under way to repair over 500 damaged pylons on the 850-mile route to an electricity station near Pretoria will test an apparent rapprochement between Mozambique and South Africa, the 2,075 MW project's main customer.

In June this year Portugal, South Africa and Mozambique signed an agreement designed to put the dam on an economic footing, provide for the power line's repair, and protect it from sabotage. Portugal, the owner of the scheme, has been carrying the \$56m annual losses of Hidroelctrica de Cahora Bassa, and servicing a \$1.2bn debt.

The improved financial prospects of the dam stem from South Africa's willingness to pay a higher tariff - 1.76 South African cents, compared with 1.1 cents under a 1984 agreement. The dam can provide 6 per cent of the republic's electricity needs.

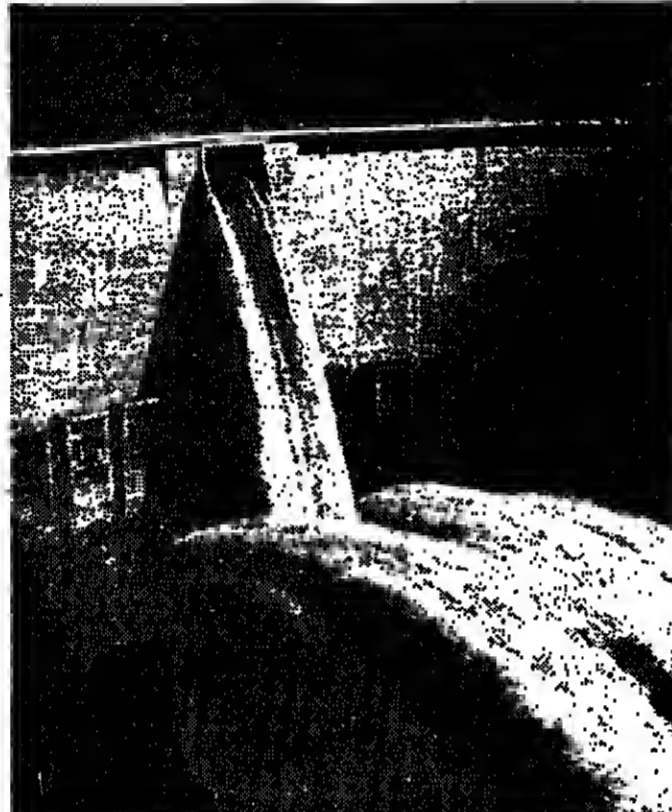
Although power began flowing in 1977, rebel sabotage of the pylons from 1982 onwards effectively put the project out of action.

The agreement also envisages a \$26m repair programme, jointly funded by South Africa and Mozambique. Negotiations are under way for Defence Systems, a British security firm, to help train Mozambican army units, who will be responsible for protecting the power pylons on the 500-mile path from the dam, sited on the Zambezi River in Mozambique's northern pedica.

Longer-term plans including drawing on Cahora Bassa power to help develop Mozambique's Niassa province and southern Malawi, as well as meet increasing demand in eastern Zimbabwe. There are also hopes that 145-mile-long lake could supply irrigation schemes in the surrounding countryside.

First, however, it has to be shown that the June agreement can be made to work.

Michael Holman



The Cahora Bassa dam in north-west Mozambique

*I'd like to spend some time in Mozambique. The sunny sky is aqua-blue and all the couples dancing cheek to cheek. It's very nice to stay a week or two. And maybe fall in love just me and you.*

So sang a romantically inclined Bob Dylan in 1975, the year of Mozambique's independence from Portugal. Much water has flowed under the country's broken bridges since then, and many of its inhabitants have been killed or maimed in the civil war. But in the midst of disaster Mozambicans have somehow preserved a charm and warmth rarely matched in Africa.

That is not to say that doing business in Mozambique is easy. State bureaucracy, buck-passing, inefficiency and shortages all contribute to the difficulties faced by the visitor.

Yet for foreigners and Mozambicans with money, the seaside capital of Maputo has improved considerably over the past two years of economic reform. Restaurants and a small band of taxis have reappeared, cafes now serve coffee, and shops and markets have something to sell. Beira, the second city, is also struggling towards a revival, although it is still a target for rebel attacks and plagued by power cuts and water shortages.

Expatriates are largely isolated from the war, flying from one secure town to another and so avoiding ambushes on the roads. They can buy a wealth of food and drink at the local *loja franca*, the foreign currency store, while a Mozambican farm labourer's monthly wage would barely buy him two large tubes of imported toothpaste. A few tips for visitors:

**Airport:** Most visitors require visas, which should be obtained from a Mozambique embassy (there is a new one opening in London) or through your business contact in Maputo. Mr Americo Maguia, president of the Mozambique Chamber of Commerce (tel Maputo 741970, tx 6498) says his organisation can also provide help and advice. On arrival at the airport, you must change the equivalent of \$50 into meticals, the local currency. On departure, airport tax is \$10. There are regular flights to and from Lisbon, Paris, Johannesburg, Harare and other centres, as well as daily shuttles to Swaziland and South Africa's eastern Transvaal.

**Transport:** Taxis are still few and far between, and you should arrange to be met at the

airport. Cars can be hired in Maputo from Interfranca (tel 25199, tx 6403), which can have the car at the airport on your arrival. There are also plans to establish an Avis agency. LAM, the state airline, flies regularly to major provincial capitals, although flights are often full. Small aeroplanes are available for charter, and you can inquire at the TIA office in the airport. Regulations are being eased, but remember that you may need a permit from the authorities to travel out of the Maputo area.

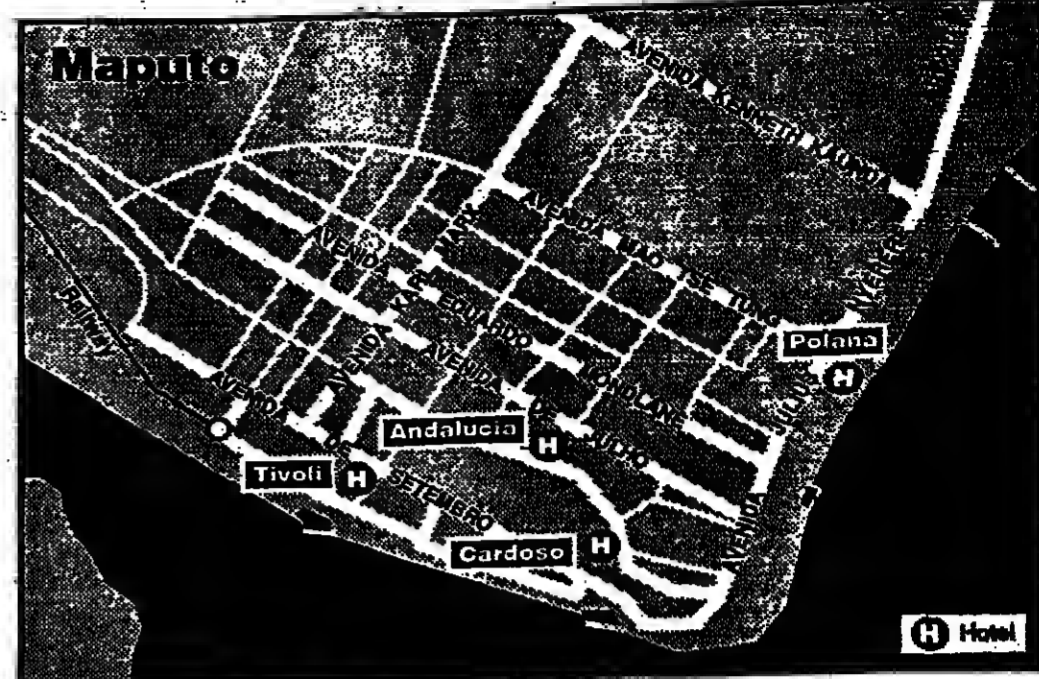
**Hotels:** Polana/Polana Mar (tel 741001, tx 6276) offers old world charm and a magnificent site overlooking the Indian Ocean - ask for a sea-facing room. Other acceptable hotels are Andaluca (tel 23051, tx 6426), Cardoso (tel 741071, tx 6337), and Tivoli (tel 23005, tx 6297). In Beira, go to the Dom Carlos (tel 711158).

**Health:** Take malaria pills as advised by your doctor. The weather is particularly hot and sometimes wet between October and March. Bottled mineral water is available, and advisable outside Maputo.

**Security:** Crime is not a serious problem and streets are safe at night. But bear in mind that a hardened Mozambican may call a road safe if it has not been attacked for three weeks. Despite the war, the

## BUSINESSMAN'S GUIDE

## Don't count on a taxi



Mozambican security forces are remarkably relaxed, but you should still be cautious about taking photographs in sensitive areas. For instance, when you turn right from the Avenida Julius Nyerere, you must cross to the left-hand side of the road opposite the presidential palace and keep between the trees and the herb, or risk an argument with an angry soldier. There are no signs to warn you of this.

**Doing business:** Although many Mozambicans in senior positions speak adequate English, it helps to speak Portuguese or to be accompanied by someone who can act as an interpreter. Protocol tends to be strictly observed and it can be difficult to get even a minor decision from a deputy if the person you want to see is away. Telephone calls within Maputo are relatively easy, but outgoing international calls may take some time. It is quicker to dial direct into Mozambique from abroad. Telex is reliable.

**Leisure:** Though its restaurants are generally mediocre, Mozambique is justly famous for its prawns. Seafood and a bottle of *vinho verde* are a safe bet. In Maputo the Andaluca and Cardoso hotels have good restaurants.

Try also the Macaneta (at the Facim showground complex), the Costa do Sol, the Mini-Golf (next to book at weekends, tel 743382), and the Penha Falhada (all along the coast road).

The Taverna del Rei near the Polana offers Portuguese fado music, and there is Saturday jazz at the Topazio downtown. In Beira, try the Club Nautica (excellent crab) and the small restaurant near the airport hangars. For a pleasant weekend out of Maputo, you can charter a plane or go by boat to the hotel on Inhaca Island.

**Some useful numbers:** Diplomatic missions: UK (tel 32340, tx 6265), US (tel 743167, tx 6149), West Germany (tel 743266, tx 6489), France (tel 743444, tx 6307), Italy (tel 741605, tx 6442), Portugal (tel 744142, tx 6341), UN (tel 744151, tx 6364), European Community (tel 744473, tx 6146), South African Trade Mission (tel 741464).

**Ministries:** Finance (tel 25071), Transport (tel 30131), Industry and Energy (tel 31029), Minerals (tel 29616), Commerce (tel 26091), Construction and Water (tel 26081), Agriculture (tel 21071), Co-operation (tel 742029), central bank (tel 28151).

**Others:** GPIE - Foreign Investment Promotion Office (tel 742713, tx 6153), DHL (tel 34101), LAM (tel 732141), Victor Mallet

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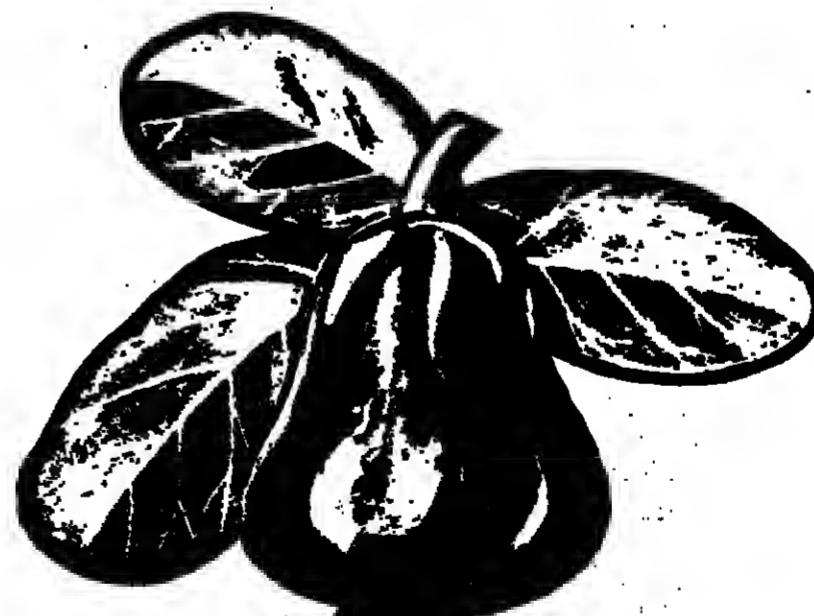
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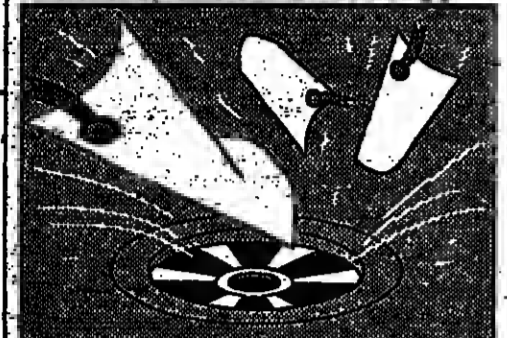
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**INSIDE**  
**Floating notes keep heads above water**



Is the floating rate note market about to sink without trace, as many Eurobond pundits suggest? Not at all, writes Dominique Jackson. The new FRIN market is certainly leaner, but most veterans of the sector are convinced that it is now remarkably fitter. The dollar-denominated sector may face a supply crisis in the near future, but starting issues are positively booming. Page 37

**Diverging views on the worth of established brands**

The debate over the value of established brands is stoked by this summer's fierce battle for the UK confectioner Rowntree - shows no sign of dying down. The willingness of the UK's Cadbury Schweppes to surrender its American business to Hershey of the US contrasts with Nestlé's determination to regain absolute control over the brands which its Carnation subsidiary had leased or sold over the years. Back page

**Three wheels on its wagon**

Mention the Reliant Robin and the response is usually a loud guffaw. But odd as it may seem, this bizarre British three-wheeler - now renamed the Rialto - is still comes off the production line of a factory in Tamworth, Staffordshire, at the rate of 50 a week. The market, however, is declining and the manufacturer is having to look elsewhere for tomorrow's profits. Richard Tomkins looks at Reliant Motor, a small company which enjoys the distinction of being the only car maker based on Britain's unlisted securities market. Page 19

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### SAS dares, but will it win?

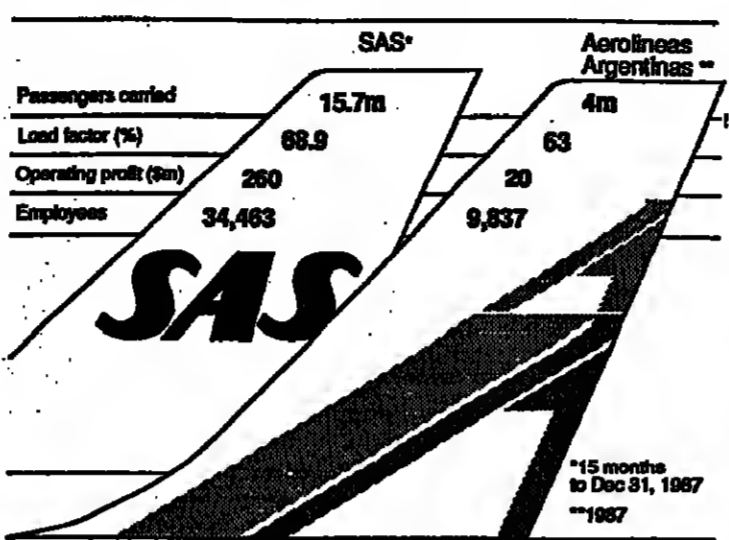
Mr Horacio Domingorena, president of Aerolíneas Argentinas, yesterday strongly condemned the Argentine government's agreement to sell 40 per cent of the state-owned carrier to Scandinavian Airlines System. The figures given for the deal were "fictitious and incorrect," Mr Domingorena said, and the arrangement "prostituted the principle of privatisation."

A Government appointee, Mr Domingorena claimed that the Scandinavian airline was paying only \$156m, not the \$204m announced last week, and that it would be putting up only \$30m of a \$90m down-payment in cash. The duty-free shop alone at Buenos Aires' international airport is "worth more than that," he said.

Mr Domingorena's intervention underlines the grave doubts over whether the SAS-Aerolíneas deal will actually get off the ground. For SAS, there are disturbing echoes of its unsuccessful effort last year to buy a minority stake in British Caledonian, the troubled UK airline.

Although Aerolíneas operates in a peripheral market, SAS is attracted to the Argentine carrier for the same reason it was drawn to BCal: it will help the Scandinavian airline to prosper in a world of "mega-carriers" despite its sparsely populated home base on the Arctic fringe of Europe.

Mr Jan Carlzon, SAS president since 1981, is keen to put into practice this element of his blueprint for survival, minority holdings in partner airlines. He has been thwarted twice so far in Europe, but rivals are imitating his strategy as the pendulum swings away from state-owned airlines.



transcends ideology. With airlines facing the expensive task of replacing ageing fleets, governments are loth to commit huge sums to enterprises which, in good years, make such slender returns. Stock markets do similar sums and put a lower valuation on airlines than do rival carriers looking for a strategic stake.

The prestige of owning the flag carrier, it seems, is no longer worth any price.

SAS's Argentine deal will be a critical test of this argument. Mr Domingorena's challenge to the sums was the most telling. First Boston, on behalf of Aerolíneas, valued the airline at \$550m, whereas Morgan Guaranty for SAS priced it at \$475m. World

### Clay Harris and Gary Mead look at opposition to the sale of a minority stake in Argentina's state airline

Bank officials came to a figure of \$525m, although the two sides eventually agreed on \$510m.

Mr Domingorena said yesterday that the Argentine side should have been handled by the Argentine National Development Bank. Mr Rodolfo Terragno, Minister for Public Works who is responsible for the deal, said Mr Domingorena should resign if he is not happy.

Mr Terragno argues that since Mr Domingorena signed a letter of intent at the beginning of the year, he should accept the terms. Mr Domingorena says no figures were included in the original letter, although he certainly appeared in favour of the general outline when he said in February that the link "could bring the benefits of economies of scale and a more global service to both companies."

Even before Mr Domingorena's intervention, the deal faced bitter criticism from the Economist opposition for which the carrier is founded by General Juan Peron in 1950 is a proud national symbol - and from Aerolíneas' domestic airline rival. The ruling Radical Party will be confronted

### Strong D-mark or weak, the glass looks half empty

Haig Simonian sees a German tendency to look on the dark side

A popular West German saying involves a partially filled tumbler and a judgment. The glass is either half full or half empty, say the Germans, depending on how you look at it. In the Federal Republic, it is usually thought to be half empty.

Leading to concentrate on the darker side of things may be a popular cliché about the German character, but recent attitudes towards the economy and the value of the D-mark have pointed to a growing ambivalence within the Federal Government and the Bundesbank when it comes to economic value judgments.

Take the Government first. Earlier this month, Mr Martin Bangemann, the economics minister, who is soon off to greener pastures at the European Commission in Brussels, expressed great satisfaction at the rate of German growth. Higher than expected industrial production figures for June meant that West German gross national product was likely to grow between 2.5 per cent and 3 per cent this year.

That is a far cry from the much lower predictions being bandied about late last year, when some analysts were talking of growth that would be lucky to exceed 1 per cent. Even now there are some doubts about the longer-term outlook. According to the Organisation for Economic Co-operation and Development, growth is set to slow to 1.75 per cent next year. The Government has yet to publish its own forecasts.

The recent upbeat economic statistics have certainly come as welcome relief for a Government which has for months been battling down the batches against a constant barrage of foreign pressure to perk up its domestic economy. Germany's trade surplus remains too high, said its critics, usually in Washington, while the domestic economy was barely chugging along.

The 2 per cent rise in the seasonally-adjusted figure for industrial production for June certainly provided handy ammunition for Bonn. But a string of recent economic statistics have been going the Government's way, bolstered in the past month by some remarkably bullish half-year figures from some of Germany's blue chip companies.

Both Siemens and Hoechst reported much higher than expected earnings, while results from the country's banks have shown a surprising expansion in domestic lending. Demand for medium-and-long-term credit from both private and business customers has perked up sharply, as investment decisions, previously postponed, are being put into action. Corporate Germany appears to be changing gear.

Hence the appreciably sadder looks in Bonn in response to foreign critics, whose focus, it must be admitted, has now shifted more to 1989 than this year. From Bonn's point of view, the tumbler showing Germany's economic performance is at least half full, if not brimming.

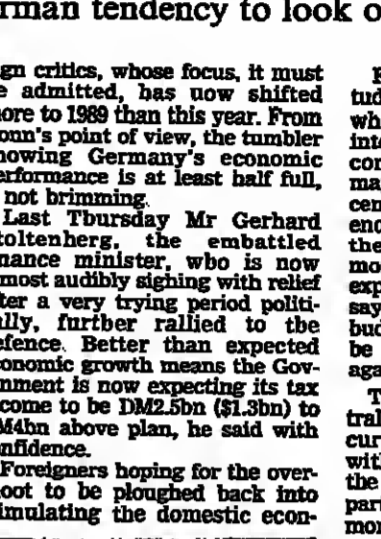
Last Thursday Mr Gerhard Stoltenberg, the embattled finance minister, who is now almost audibly sighing with relief after a very trying period politically, further rallied to the defence. Better than expected economic growth means the Government is now expanding its tax income to be DM2.5bn (\$1.3bn) to DM4bn above plan, he said with confidence.

Foreigners hoping for the overshoot to be ploughed back into stimulating the domestic economy were in for a disappointment, however. The higher revenues were gratifying, but not enough for the Government to reconsider its range of consumer tax increases next year, said Mr Stoltenberg. The money would be used to cut next year's budget deficit instead.

Yet despite the new-found confidence in Bonn, there is a joker in the pack. For when it comes to the value of the D-mark against the dollar, the old German habit of seeing the more pessimistic side of things rings as true as ever. Moreover, it applies as strongly to the Bundesbank as to the Federal Government.

Throughout the closing months of last year, one phrase - *die Schmerzgrenze* - hogged all headlines. The "pain threshold" for German companies - where the rising D-mark starts to bite into export profitability and gradually spill over into the domestic economy - was becoming more acute daily, we were told. Confidence reached rock bottom when the dollar briefly plunged to DM1.58 at the end of 1987.

That seems like history now, with the dollar testing - and briefly breaching - DM1.92 last week. For suddenly, it is not the weak dollar, but the strong one, which has become a problem for the Germans.



Gerhard Stoltenberg: Remarks on dollar produced swift reaction

Few have expressed that attitude better than the Bundesbank, whose step-by-step rises in key interest rates reflect a growing concern with inflation. Prices may only be rising by about 1 per cent at present, but that is quite enough to spark the concern of the guardians of the country's monetary stability. Inflationary expectations are heading up, they say, and must be nipped in the bud. Thus the D-mark must not be allowed to fall any further against the dollar.

The whole debate in the central bank about the value of the currency strikes an odd chord with last year's discussion about the German equity market and, particularly, how to make shares more attractive to German private investors.

In the months leading up to October's crash, a variety of German pundits, not least Mr Karl Otto Pöhl, the Bundesbank president, were exhorting wealthy Germans to invest in shares to lighten the stock market and further the development of Finanzplatz Deutschland - Germany as a financial centre.

But in a speech shortly after the crash, Mr Pöhl was suddenly drawing comfort among his audience from the fact that so few German families owned equities - in contrast to the US and UK. And German shareholders tended to be among the wealthier strata of society, which could best weather the storm. So anxiety about a swift economic downturn after the crash was misplaced, he argued.

Now it is the value of the D-mark which is undermining the same intellectual mugging from West Germany's leaders. The currency is now too weak, we are told. Mr Stoltenberg's remarks on Thursday that a dollar above DM1.50 could cause "problems" produced a speedy reaction in the markets. The dollar sank from DM1.92 to DM1.89 with an alacrity which even the Japanese would admire.

What Mr Stoltenberg, and others concerned about inflation, have not dwelt on is that it is precisely the weaker D-mark along, of course, with traditional advantages like good products and record for reliability and service - which has been helping German companies to report such good results.

The Government may be more relaxed about the outlook for the economy, but when it comes to the value of the D-mark, it seems no one is ever satisfied. A strong D-mark is a bad thing; but then so is a weak one. Perhaps there is no level for the West German currency which can be deemed acceptable. But then again, this is Germany - and that tumbler always tends to be half empty.

### UK GILTS

## Assessing summer's handiwork

By Simon Holberton

THE gilt-edged securities market has more to absorb last week than for a very long time. Buffeted between international and domestic events, the market came through it all surprisingly strongly.

The important thing it now has to consider is the likely course of short-term interest rates in the UK.

Some hints are given in the Bank of England's Quarterly Bulletin.

For the time being, the current level of rates seems likely to prevail. For the Bank, the setting of interest rates is a question of balancing what has already been done with what it sees happening on the inflation front in the medium-term.

It follows then that any unexpected trend deterioration from that path will be met by higher interest rates. Its focus is predominantly, but not wholly, domestic.

The Bank is now in the position of waiting for the economy to show signs of slowing.

It will probably take between two to three months for the official statistics begin to show what effect, if any, of the summer's tightening in interest rates.

The Bank will therefore be relying more on indications of sentiment, such as Confederation of British Industry surveys and its own soundings of industry throughout the country for a guide to the effects of its summer handiwork.

It admits that this is less than optimal and that a degree of uncertainty clouds the outlook, but it believes rates are in the ballpark and hopes that enough has been done.

On domestic grounds, therefore, higher interest rates cannot be ruled out.

This is also true for external reasons. The Bank cannot be



indifferent to a worldwide tightening in monetary policy if it leads to sterling weakness.

Given the reaction of the dollar last week to the Fed's decision to increase the discount rate to 8 1/2 per cent and a further tightening in Fed funds, the Bank seems to have no short-term problem with sterling.

The big test may come if this week's US trade figures are seen as good for the dollar.

There are also signs that the Bundesbank might again be moving to tighten: this could happen as early as this week or around August 25 when the bank's board meets.

The Bank dropped an exchange rate clue in the Bulletin by its reference to the value of sterling as measured by the trade-weighted index.

Unlike the May Bulletin, which specifically mentioned the D-mark, the Bank this time highlighted only the index.

While it is unlikely that 76.5 on the index is a target for the exchange rate, clearly movements measurable in full percentage points either side of that may well point to a policy response.

Perhaps the most interesting thing to come out of the Bulletin was the Bank's comment on the need for the growth in domestic demand to be below Britain's potential rate of growth.

An economy's potential growth rate is the sum of the growth in productivity and the growth in the labour force.

Throughout the 1980s productivity for the whole economy is estimated by the Treasury to have been 2 per cent a year.

At the same time the workforce has grown by about 1/2 a per cent a year.

This suggests that Britain's

### THIS WEEK

US TRADE figures published tomorrow are set to be the focus of attention in world financial markets this week and could determine the short-term course of the dollar.

The size of the deficit may encourage speculation about possible US interest rate moves and should provide an indicator of the strength of demand within the economy.

The MMS International consensus of forecasts is for a deficit of \$11bn in June, seasonally adjusted, against \$10.9bn in May. A larger deficit may undermine the recent strength of the dollar but it could return to an upward path if the US Federal Reserve seeks further rises in interest rates.

Financial markets will also take note of US industrial production figures for July, due today. The MMS consensus suggests a rise of 0.5 per cent - more than in June and highlighting the strength of the economy.

The Republican National Convention, which starts today, may provide some pointers for future US economic policy in the event of a Republican victory.

In the UK, a series of statistics published this week will be analysed for signs of a possible upswing in inflation and indications as to whether the Government will decide a further increase in interest rates is needed to curb it.

The Retail Price Index for July is published on Friday. The MMS consensus points to a rise of 0.1 per cent taking the annual rate to 4.8 per cent. That compares with 4.6 per cent in June.

The figures will be preceded by provisional money supply figures for July, released on Thursday. A large rise in bank and building society lending is expected, partly due to the rush for mortgages ahead of tax changes. The MMS consensus points to a \$2bn (\$13.5bn) rise compared with \$2.5bn in June.

statistics for the underlying growth rate for average earnings in June, released on Thursday by the Department of Employment, are thought likely to rise to 8.75 per cent.

In Japan, money supply and wholesale price index figures will be published on Tuesday. The money supply figures (M2 plus Certificates of Deposits) are expected to show double digit growth continuing, but analysts will be paying more attention to the wholesale price index.

If the index movement continues to be downward, as expected, then markets will remain calm. However, a move upwards might worry investors that the Bank of Japan will consider raising its official discount rate.

In France, the consumer price inflation figures are expected to be published sometime this week. French money markets were stretched last week as banks sought to meet their obligatory reserve requirements. Bankers do not expect short-term interest rates to rise this week when the Bank of France holds a money market tender tomorrow.

Other figures due for release this week (with the MMS consensus in brackets) include:

Today UK industrial output for June (+0.2 per cent) and retail sales for July (+0.5 per cent)

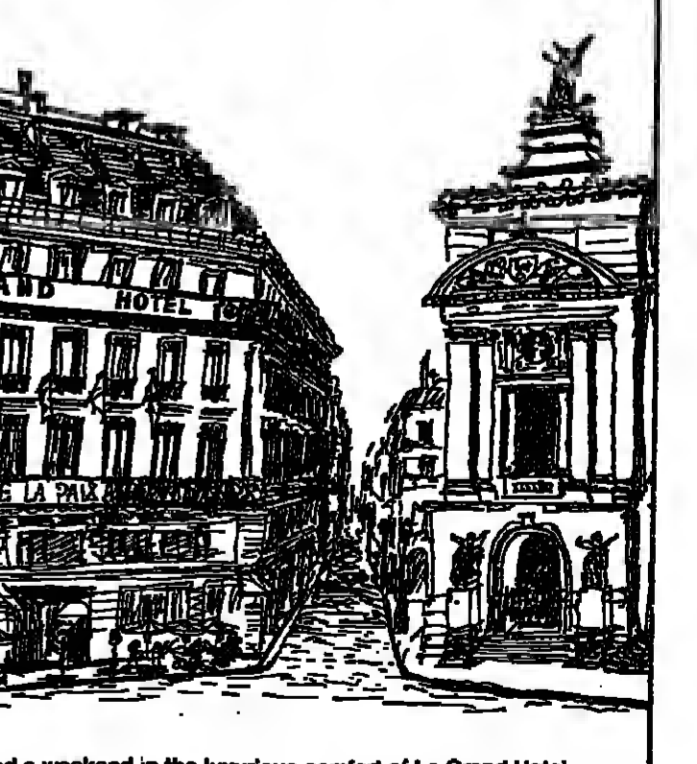
Tuesday UK Public Sector Borrowing Requirement (\$800m), US capacity utilisation in industry in July (83.4 per cent)

Wednesday US housing starts and building permits in July

Thursday Provisional estimates of UK money supply in July, UK unemployment in July (fall of 35,000, seasonally-adjusted), UK manufacturers and distributors stocks and capital expenditure by manufacturing and service industries in three months to June

Friday US federal budget figures for July (\$22bn deficit).

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AGAIN AND AGAIN

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Wall Street braces itself for more interest rate rises

BELIEVING last week's dramatic discount rate increase will prove inadequate for the task of cooling down the US economy, Wall Street is bracing itself for further increases in interest rates as the Federal Reserve tries to get a grip on inflation.



Paul Volcker: prepared markets for change

The Fed's policy-making open market committee could decide at its meeting tomorrow that additional tightening of monetary policy was justified immediately by more signs of inflationary pressures in the economy.

Next to nobody, though, expects the Fed to use the old-fashioned tactic of raising its discount rate again soon. Last Tuesday's increase by half a percentage point to 6.50 per cent, the first in nearly a year, sufficiently impressed on Wall Street the Fed's resolve to fight inflation.

A wholly unexpected move, it was, however, no match for the problem. Salomon Brothers' fixed income economists said at the weekend: "Evidence of substantial third-quarter economic momentum - generated by hefty job and income growth and relatively lean inventories - along with increasingly tangible pricing pressures suggest that further tightening is inevitable."

The central bank will use instead the more subtle tactic of raising the Fed funds rate at which banks lend reserves to each other.

with, for example, the yield on 30-year Treasury bonds rising to a peak of around 10 per cent or 10.25 per cent.

This would virtually match the spike which helped trigger last October's stock market crash. Thankfully, though, many other economic and psychological factors are different this time so a shocking replay is unlikely.

The painful adjustment to higher rates began with a jolt last week when long bond prices dropped three points, their largest fall in a week so far, as yields rose some 30 basis points to 9.42 per cent.

Further price falls are likely this week as more data on the robust economy are released by the Government.

Most crucially, today's figures for industrial production and tomorrow's for capacity

utilisation will show sharp increases in July.

The latter figure is likely to make the market jittery because it is rapidly approaching 85 per cent, widely considered an "inflation flash point," according to Mr Philip Brannen, chief economist of Irving Securities.

These figures and others forcefully demonstrate the scale of the policy problem confronting the Fed. Mr Alan Greenspan, the Fed chairman, recently told Congress that the US economy could grow by around 2 per cent or 2.5 per cent this year without stimulating inflation.

Yet data pouring in is showing an economy trundling along at an annual rate of between 3.5 per cent and 4 per cent in the third quarter.

In retrospect, the Fed has appeared complacent in recent months, believing there was evidence that the economy was about to slow down on its own accord.

Wall Street markets, perhaps lulled by the Fed's reassuring words, drifted desolately. In the last 10 days or so, though, Fed governors and presidents of its reserve banks were suddenly shocked by contrary indications. On a formal level was the creation of 815,000 jobs in June and July. Less formal was a barrage of anecdotal evidence from around the country of imminent labour shortages.

Poorla, Illinois, for example has swung in just three years from high unemployment to a



Alan Greenspan: every country for itself

labour scarcity thanks to the textbook turnaround of Caterpillar Tractor, its largest employer.

Now disturbed by the economy's strength, the Fed bumped up the discount rate on Tuesday. Wall Street warmly applauded it as necessary medicine and a sign that the Fed was exerting its independence over politicians in an election year.

Given that the inflationary pressures are not great, a further steady rise in interest rates should begin to cool off the economy by the turn of the year.

With luck and good judgment, the Fed might avoid a recession and achieve instead

"soft landing" at a non-inflationary growth rate, believes Mr David Jones, chief economist of Anbrey Lamston, primary bond dealer.

Criticism of the Fed began to surface in some quarters by the end of the week, though, after Wall Street had had a chance to reflect on recent history. Three main gripes were the Fed's earlier softly-softly policy approach, its timing and its failure to signal its intentions to the markets.

Why had not the Fed acted two business days earlier when July's shocking employment data were released rather than hours before the Treasury began its quarterly refinancing auctions?

Many market players are now nervous about being wrong-footed again to their loss by a sudden Fed policy move. They remember wistfully the care Mr Greenspan's

predecessor, Mr Paul Volcker, took to prepare markets for change.

Equally muted must be Mr Greenspan's colleagues abroad. It seems the US gave the rest of the Group of Seven little or no warning of the discount rate increase even though it was likely to further strengthen the dollar.

In the event, the dollar weakened when foreign exchange markets believed that higher interest rates were a global trend triggered by the US action. West Germany and particularly Japan are unhappy with the idea that US efforts to tackle its own domestic problems are creating ones for them as well.

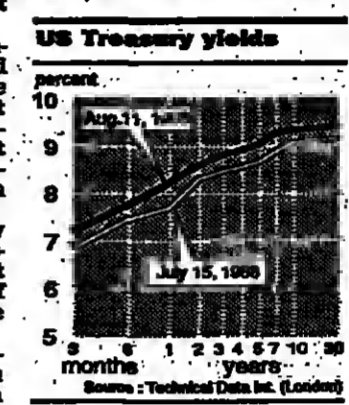
It remains to be seen whether this will usher in a period of friction between members of the Group of Seven only months after they expressed at the Toronto summit high satisfaction with their co-operation.

But perhaps the countries now have more scope to focus in a more independent fashion on their domestic concerns, Mr Jones said. "Increasingly it looks like every country for itself."

Such an attitude would suit the Greenspan Fed which "is considerably more domestically oriented than the Volcker Fed," Mr Jones added.

Mr Greenspan is philosophically more attuned to "keeping his ducks in a row at home and then letting market forces determine the dollar."

Roderick Oram



US Treasury yields

FT/AIB INTERNATIONAL BOND SERVICE

Table listing various international bonds with columns for issuer, denomination, maturity, and price. Includes sections for US Money Market Rates, US Bond Prices and Yields, and New Tokyo Bond Index.

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INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Behind the scenes business in summer

THE USUAL summer torpor descended on much of the international loans market last week, with proof of the market's calm evidenced by the unusual occurrence of Japanese bankers preparing for vacation.

Nevertheless, there is an unusual amount of corporate business going on behind the scenes in banks in London and there was activity also in Asia.

As the Industrial Finance Corporation of India completed one deal last week, signing a \$100m loan with a group of banks led by Swiss Bank Corporation Investment Banking, state-owned Air India invited bids to arrange a \$275m loan to buy two 747-300 cargo and passenger combination aircraft.

The airline would apparently allow banks to arrange leasing of at least one aircraft. Bids must be submitted by August 31.

The IFCI financing was split into two equal parts, the first with a final maturity of 10 years and a grace period of four years, and the second with a seven-year maturity with a three-year grace period. It carries an interest margin of 18 1/2 basis points over London interbank offered rates for the first two years and 25 basis points over Libor for the remainder.

Still in Asia, Malaysia was said to be seeking bids from banks for a \$300m, 10-year loan.

Bank of America has been awarded a mandate for a \$12.5bn, five-year Euroyen financing, to be secured on four

EUROMARKET TURNOVER (\$bn)

Market	Strikes	One	Five	Other
US\$	1,517.6	103.7	6.0	8,854.2
DM	597.7	142.1	462.0	7,027.4
Other	193.4	14.7	1.0	1,001.2
1987	1,469.1	1,267.8	284.0	1,653.2

Market	One	Five	Total
US\$	12,747.6	1,311.7	7,731.7
DM	16,639.5	1,364.3	2,185.4
Other	14,022.9	1,089.9	2,521.1
1987	14,465.9	1,918.3	4,101.7

Boeing-747 freighters, by Los Angeles-based Flying Tigers.

In the UK, Davy Corporation signed a \$60m multiple option facility, of which \$40m is committed, jointly arranged by Barclays de Zoete Wedd and National Westminster Bank. BZW was separately said to have been awarded a mandate for a \$200m, five-year financing, \$100m of which is to be committed, for S&W Bortfeld, the commodities and financial services group.

SG Warburg arranged a \$47.6m facility to finance the management buyout of York Trailers. The borrowing vehicle is Ingleby (282) which is borrowing \$27.6m over seven years, \$12m of which is a term loan, \$4.1m a deferred consideration guarantee and \$5.5m a revolving credit. It carries a 1 1/2 per cent margin, falling to 1 per cent depending on gearing, with a commitment fee of 1/2 per cent. Its rental subsidiary, United Rentals, is borrowing a \$20m revolving credit, with repayments beginning in year two, and carrying a 1 1/2 per cent margin with a commitment fee of 1/2 per cent.

Proving deals associated with UK mortgage companies do not always go badly, Midland Montagu's syndication of a \$100m facility for Mortgage Funding Corp is already up to \$150m in general syndication and will be increased. Montagu's deal for FMS Number 2, was raised to \$107.5m from \$100m.

A loan arranged by Manufacturers Hanover for Central-European International Bank, a dollar-based offshore bank established in Budapest and owned by the National Bank of Hungary and a group of international banks, was raised to \$50m from \$40m.

In the commercial paper markets, Merrill Lynch International arranged a \$500m Eurocommercial paper programme for Gaz de France, the latest state-owned issuer to enter the market. Issuance is expected to start in September 1988 and Citicorp Investment Bank is the other dealer.

Merrill Lynch also arranged a \$100m ECP programme for Enserch, the energy, engineering and construction company.

Stephen Fidler

INTERNATIONAL BONDS

Floating rate note market keep its head above water

AS THE CLOUDS of accelerating inflation and rising interest rates settle over international fixed-income markets, suggestions surface that the floating rate note market, once the most buoyant sector of Eurobonds, is about to sink without trace.

However, the suggestions do not bear close examination - the new FRN market is certainly leaner but most sector veterans are convinced that it is now markedly fitter. Although the US dollar-denominated chunk of the market appears on course to hit somewhat of a supply crisis in the not too distant future, the market in sterling FRNs, once dismissed as a cottage industry among conglomerates, is positively booming.

Cries of despair over dollar FRN supply reached a high pitch recently with the news that the UK was exercising the first available call option on its \$2.5bn floater issued in 1985 and due in 1992. Although the move had been well anticipated, the issue was a popular and fairly liquid one and its redemption is expected to leave a discernible gap in the sovereign borrower sector of the market. The announcement prompted a swift switch to several other sovereign issues with the benchmark \$4bn UK FRN due 1996 - known as the "new" issue among a handful which formed a market.

Dealers were soon poring over their books to check the

DEBT OUTSTANDING IN INTERNATIONAL BOND MARKET (\$bn)

	1985	1987	Q1	Q2	Q3	Q4	1988 Q1
Total gross new issues	218.7	188.8	51.8	51.5	42.6	34.6	47.9
minus scheduled repayments	22.1	35.8	6.9	6.7	13.1	9.2	12.5
minus early repayments	36.4	36.3	8.5	8.1	7.9	11.8	9.3
= Total net new issues	156.2	116.7	36.5	36.8	21.6	13.6	26.1
plus/minus valuation effects	59.1	104.1	31.5	-4.0	-0.2	78.8	-18.7
= Total change in stocks	215.7	212.8	68.0	32.8	21.6	90.4	7.3
Total gross new issues of which floating rate notes	48.5	12.1	2.3	2.1	2.3	5.4	2.8
minus scheduled repayments	1.8	2.5	0.8	0.4	0.5	0.6	0.7
minus early repayments	18.4	10.0	3.9	1.7	2.3	2.1	2.4
= Total net new issues	28.5	-0.4	-2.2	nil	-0.5	2.7	-0.3
plus/minus valuation effects	2.2	7.1	2.3	-0.1	-0.2	5.0	-1.2
= Total change in stocks	31.7	6.7	0.1	-0.1	-1.0	7.7	-1.4

Source: IFCI  
first available call dates on similar issues. Most sovereign borrowers who chose to call an FRN would currently be able to refinance at much more attractive rates by issuing fixed-rate paper and subsequently swapping the proceeds into floating rate funds. Over the last few years, the growing sophistication of swaps and other behind-the-scenes financial engineering has meant that the floating rate note market is no longer the most efficient place to raise funds.

Sovereign borrowers with dollar FRNs which could be redeemed early in the next 12 months include Sweden, Italy, New Zealand, Ireland and Belgium.

With no prospective new issues in sight, this drying up of supply is bound to contribute to a further tightening of spreads. Spreads have narrowed markedly in the last few

weeks as investors concerned about spiralling rates on the fixed-rate side of the market switched back into floaters, many for the first time since the market experienced a breakdown of liquidity and trading practices in the spring of last year.

Dealers reported brisk demand for outstanding sovereign issues, with the "new" UK FRN currently trading at around 40 basis points below the London interbank offered rate.

According to sector specialists, the FRN market to which investors are returning differs substantially from the overcrowded and over-traded sector from which they fled. For one thing, the market has shrunk, largely through a "survival of the fittest" procedure, to a far more rational and civilised size. Around 50 or 60 issues are now genuinely liquid compared with a number in excess of 200

when the market was at its peak in 1985 and 1986. The number of market makers has also fallen by around half.

Turnover is down but is now more balanced with more genuine retail participation seen. The character of the business has also changed with many houses working hard on arranging deals in some of the less actively traded areas such as the second-line sovereign issuers, subordinated bank paper or perpetual issues.

Although this can take time and does not generate immediate or substantial gains, it does contribute steady profit at a time when houses are becoming increasingly conscious of margins.

In sharp contrast to this subdued and sedate modus operandi, the sterling-denominated FRN market seems to be undergoing a phase of dynamic and seemingly unstoppable

growth. Dealers had their busiest period for some time last week as foreign investors piled into sterling floaters to take advantage of the relatively high yields.

Interest was detected from the Far East and the US while dealers also noted several German institutions selling D-Mark positions and switching into sterling FRNs, regardless of the coupon levels, largely to make currency gains. Building society paper was also in great demand, largely from UK investors as these borrowers have yet to make a substantial impression on foreign investors.

The sector has benefited more than most from investor anxiety over rising interest rates as the majority of sterling FRNs have their coupons refixed quarterly and not semi-annually as do the US dollar issues.

An important new chunk of the sterling FRN market is the mortgage-backed sector which is gaining ground with each new issue.

Dealers said the investor base was expanding all the time as institutions and corporate treasurers become more comfortable with the concept. The extent of this acceptance was neatly illustrated last month when the Bank of England gave the TSB group the go-ahead to move part of its mortgage portfolio off balance sheet by using this technique, making TSB the first

recognised UK clearer to do so. Variable rate notes have also been hailed by some market operators as another up and coming area but most dealers are reserving their judgment on the new instruments.

By allowing the coupon to be renegotiated from one coupon period to the next, theoretically giving a more accurate reflection of market conditions and of the borrower's credit, the new notes are said to offer the investor a greater degree of protection. However, this has yet to be tested as has the question of satisfactory liquidity in the market which has so far been dominated by Merrill Lynch and Warburgs.

Many dealers are still cautiously optimistic that the traditional side of the market will once again come to the fore but that will depend on a crisis in the market for interest rate and currency swaps which is still looking fairly robust despite initial fears that new capital adequacy guidelines would stunt its growth.

One senior trader said: "There is going to come a point - although I am not sure when that will be - when raising billions of dollars of funds for several sovereign borrowers is just not going to be feasible via the swap market. Then they will be forced to come back to the floating rate note market where all the necessary machinery is already in place."

Dominique Jackson

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %	Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %	
<b>US DOLLARS</b>																
Westpac Banking Corp	80	1991	3	14 1/4	101 1/2	Westpac Banking Corp	13.608									
<b>DM-MARKS</b>																
West LB Int. Lux	100	1993	5	5 1/2	100 1/2	West LB Girozentrale	5.833									
McDonald's Corp	50	1993	5	5 1/2	100	Bayerische Vereinsbank	5.250									
European Coal & Steel Com.	54	1993	5	5 1/2	100	Bayerische Vereinsbank	6.500									
<b>SWISS FRANCS</b>																
Tachibana Shokai	20	1993	-	1/2	100	Handelsbank Nordwest	6.500									
Ind. Co. "S"	30	1993	-	1/2	100	Ed. de la Suisse	6.250									
CIBC	100	1993	-	5 1/4	100 1/2	Credit Suisse	5.080									
Ringer Hut Co. "S"	35	1993	-	1/2	(100)	SBC	-									
Yashiro Chemical Ind. "S"	40	1993	-	1/2	100	UBS	-									
Tokyo Telephone Co. "S"	120	1993	-	1/2	100	UBS	-									
<b>YEN</b>																
Mitsubishi Corp. (c)	10bn	1992	4	7	101 1/2	Yamaichi Int.	6.525									
<b>LUXEMBOURG FRANCS</b>																
Kamira Oy	300	1993	5	7 1/2	100	Credit Europeen Lux.	7.500									
Kredietbank Int. Fin. NV	300	1993	5	7 1/2	100 1/2	Kredietbank SA Lux	7.377									
GMAC Cont. Detroit	300	1991	3	7 1/4	100 1/4	BGL	7.155									
<b>NEW ZEALAND DOLLARS</b>																
Cwealth BK of Australia	60	1991	3	14	101 1/2	Hambros Bank	13.255									
Sogen Finance Lux	60	1991	3	14	101 1/2	Societe Generale	13.255									

\*Not yet priced. †Floating rate note. ‡With equally weighted. §Convertible. ¶Fixed bonus. \*\*Private placement. ††Coupon at 15.5% below twice the three month bank bill rate. †††Coupon for the first 6 months will be the Australian bank bill rate less 25 basis points. Thereafter interest will be paid at a level equal to the 3 month bank bill rate less 15 basis points paid quarterly in arrears. ††††Default. †††††Coupon at 15.5% below twice the three month bank bill rate. Note yields are calculated on AUD basis.



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MANUFACTURERS HANOVER TRUST COMPANY  
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August, 1988

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INTERNATIONAL CAPITAL MARKETS

Lac seeks retrial in Hemlo gold mine row

By Our Montreal Correspondent

A SEVEN-YEAR legal battle over ownership of the rich Page Williams gold mine in the Hemlo district of Northern Ontario has taken a new twist.

Lac Minerals, one of the two Canadian mining groups contesting ownership, has applied for a new trial, saying it has new evidence.

The Page Williams mine was awarded to Corona Corporation in March 1986 by the Ontario Supreme Court. However, the Supreme Court of Canada is scheduled to hear an appeal on October 11.

Lac says important new evidence has come to light and justifies it seeking a new trial. It has asked the Ontario Supreme Court to set aside the 1986 decision.

The Page Williams mine is expected to produce 450,000 oz of gold next year and is among the richest in North America.

Lac's motion for a new trial is due to be heard in Ontario Supreme Court on October 27, but the company is trying to get the hearing advanced before the Supreme Court of Canada opens its hearing.

Prospectors Mr Donald McKinnon and Mr John Lerdie are credited with finding the now famous Hemlo gold camp late in 1979. Lac claims its new evidence may be inconsistent with testimony given at the original trial in 1986 by Mr McKinnon.

Corona described the Lac move as a "desperate, last-minute attempt to delay the workings of the legal system."

Speculation in the mining industry had suggested the two companies might come to an out of court agreement.

Parmalat faces shake-up after Kraft negotiations

By John Wyles in Rome

MR CALISTO TANZI'S Parmalat food empire looks set for an important restructuring next month after long and difficult negotiations with Kraft, the US foods manufacturer.

The precise ownership of these is still unknown, although it has emerged during the last fortnight that Kraft has been forced to modify its original objective of a full takeover of Parmalat in favour of a more limited purchase of some of its subsidiaries.

Mr Tanzi, who has built up his L1,000bn (\$717m) a year business over the past 30 years, appears to have come under a variety of pressures, both political and industrial, to limit the extent to which another non-Italian manufacturer is allowed to establish an important bridgehead in the domestic food industry.

The issue of foreign penetra-

tion is becoming especially sensitive in the wake of the Nestlé purchase of Buitoni from Mr Carlo De Benedetti. So much so that it is beginning to influence the political discussion over the future of the state-owned SME food group, whose takeover by Mr De Benedetti was blocked three years ago.

The parties in the governing coalition are divided about whether SME should be privatised, but all agree that it ought to be a vehicle for the Italian food industry.

The prospect of part, or all of Parmalat being sold to Kraft at one stage appeared likely to incite a rival approach from Federconsorzi, the federation of small food manufacturers. But the organisation apparently changed its mind, impressed not least by the size

of the Parmalat debt burden of around L500bn.

A possible joint venture between Parmalat companies and Federconsorzi cannot be ruled out, however, until Mr Tanzi makes his intentions clear. This may not be until September 3 and 5 when he has called shareholders meetings of Parmalat SpA and three other subsidiaries, Parmalat Paestum, Max Baker and Tetamanti e Figli.

Since these companies are involved in baking, fruit juices and tomato sauce manufacturing, the speculation is that they may be spun off into a new holding company, control of which would then pass to Kraft.

Mr Tanzi, as a result, would keep control of his core businesses, long life milk and cheeses, together with his television station, Odeon.

European Vinyls buys three PVC businesses

By Our Financial Staff

EUROPEAN VINYLs, a joint venture between ENI, the Italian state energy group, and Imperial Chemical Industries of the UK, is to buy three European PVC businesses for an undisclosed sum, ENI said.

The two parent companies have authorised European Vinyls to buy Interplastic Wels of Austria, Sweden's Davinyl and the PVC business of Weston Hyde Products of the UK.

The acquisitions will boost European Vinyls' turnover to an estimated DM2,400m (£1.5bn) this year. Last year it made a net profit of DM800m on turnover of DM1,800m.

ENI said the acquisitions were part of its strategy to develop European Vinyls' plastics business and boost its international presence.

Of the companies to be bought, Interplastic Wels had a turnover of Sch569m (\$42.5m) last year, while Davinyl had a turnover of SKr152m (\$23.5m), it said.

European Vinyls is planning to raise its capital to Fl 700m (\$333m) from Fl 360m to help finance its expansion plans.

Japan's Kobe signs steel accord with Venezuela

By Joseph Mann in Caracas

KOBE STEEL and CVG, a Venezuelan government development agency, have signed an agreement covering feasibility and pre-engineering studies for a \$1.5bn steel complex planned for the country's heavy industry centre in Ciudad Guayana. The complex would produce 1m tonnes a year of steel sheets and 1m tonnes of pre-reduced iron ore briquettes. Both products will be for export.

If preliminary studies turn

out to be favourable, the Japanese steelmaker and CVG will set up a joint venture to build and operate the new complex, to be called Consigna.

CVG controls large state-owned ventures in steel, hydro-electric power, aluminium and mining in the Guayana region.

Kobe Steel is also investing in another project in Venezuela, involving the refurbishing of a plant formerly owned

by US Steel. The plant was designed to produce enriched iron ore briquettes for the steel industry, but never worked properly.

Kobe is leasing the briquette plant, which is now owned by the Venezuelan Government, and says it will make the facility operate efficiently and will export its output. Total investments in the refurbishing project are about \$180m.

Henley hit by interest costs

By Roderick Oram in New York

HENLEY GROUP, the California-based industrial holding company, incurred an increased loss in the second quarter with strong gains in operating profits more than offset by higher interest expenses, the amortisation of goodwill and other charges.

Interest costs were the main culprit as Mr Michael Dingman, Henley's chairman, tried to take over Santa Fe Southern

Pacific, the railway and natural resources group.

Last month Henley conceded defeat and sold its 16.9 per cent Santa Fe stake to Itef for \$237m and a 40 per cent stake in Itef. Once the deal is complete, Henley's long-term debt, which peaked at over \$1bn, will be reduced to virtually zero.

The second-quarter net loss was \$77m or 71 cents a share, on revenues of \$240m, against

a loss of \$57m or 57 cents, on \$238m a year earlier.

First-half net profits were \$46m or 55 cents, after a gain of \$165m from the sale of the M.W. Kellogg unit, against a loss of \$120m or \$1.15 a year earlier. Sales fell to \$1.77bn from \$1.78bn, reflecting the Kellogg disposal.

The group's four largest operating subsidiaries all reported strong profit increases in the first half.

Offer seen for Canadian Tire

By Robert Gibbons in Montreal

A NEW chapter in the two-year contest for control of Canadian Tire (CTC), the diversified retailing group, may be coming. Speculation is rising of a bid potentially worth around C\$2m (US\$1.64bn).

CTC, which was Canada's merchandising success story in the 1970s, has this year resumed its growth path after a period of struggling. It is a national franchise chain selling car parts, maintenance and repair, hardware and sports goods at highly competitive prices.

A six-month agreement preventing three Billes family members and the store dealers from selling their voting shares expires on Friday. Alfred and David Billes, sons of the founder, want to sell

their combined 40.6 per cent of the voting common shares. Their sister, Martha, wants to keep her 20.3 per cent share.

The dealers earlier tried to buy a part of the family voting stock but this was blocked by the Ontario Securities Commission because the terms unfairly excluded non-voting public shareholders. CTC has 85m non-voting A shares outstanding and 3.5m common voting shares.

Last February CTC's board proposed letting the two Billes brothers convert their common shares into class A shares. Then they would have sold them. Martha and the dealers would have stayed as voting shareholders while the A non-voting shares would have been given the full vote.

However, the A shareholders rejected the plan and the Billes agreed not to sell any voting shares until August 15.

CTC has sold off two unsuccessful foreign ventures, reshaped policy and installed a new president. The class A stock is now trading at C\$17, up from a year's low of C\$8.50.

The latest bid rumours centre on Claridge Investments, the holding company of Mr Charles Bronfman of Montreal, and associates. Mr Bronfman is co-chairman of Seagram, the world's biggest distiller.

The George Weston Group, which owns Loblaw, Canada's largest food distributor, and the restructured Canadian Pacific are also mentioned. The dark horse could be Sears Roebuck, the largest US retailer, and its Canadian affiliate.

Mitsubishi profits surge

By Our Financial Staff

MITSUBISHI Petrochemical, the largest Japanese petrochemical group, has reported that unconsolidated net earnings in the first half of 1988 surged 138.7 per cent to Y9,163bn (\$68.6m) from Y3,84bn a year earlier.

Per share net earnings rose to Y21.83 from Y10.66. Pre-tax profits totalled Y24,94bn, up 145.2 per cent from Y10,17bn.

Sales showed a 16.1 per cent year-on-year increase to Y157,4bn from Y135.6bn.

Mitsubishi Petrochemical ascribed the jumps in both pre-tax and net earnings to higher extraordinary profits stemming from an increase in interest payments received during the latest reporting period.

The company is planning to pay Y3 per share in interim dividends, up from the Y2.5 paid a year earlier.

Investors pay \$305m for Lucky's Florida stores

By Our New York Staff

AMERICAN STORES has sold for \$305m the Florida division of Lucky Stores two months after the \$2.5bn purchase of Lucky made American the largest US supermarket chain.

The purchaser was a group of investors led by Gibbons, Green, van Amerongen, the New York leveraged buy-out specialist which had competed against American for the Lucky Group.

The division, Lucky's largest outside California, consists of 35 Kash n' Carry stores based in Tampa. In an earlier disposal, American sold Lucky's

38 Arizona stores for \$75m to Odyssey Partners, another New York buy-out firm.

The Federal Trade Commission has raised anti-trust concerns about the California market where American's Alpha Beta Stores and Lucky dominate food and drug retailing. To meet the concerns American has also agreed to sell 37 Alpha Beta and Lucky stores. Buyers have been found for 30 of them so far.

After the disposals, American will own some 200 Alpha Beta and 340 Lucky stores in California.

Union rejects Pan Am wages pact

By Our New York Staff

PAN AM's hopes of staving off a financial collapse have diminished with the rejection of a wage freeze and changes in work practices by the Transport Workers Union.

A substantial margin of the union's 5,200 Pan Am mechanics, service personnel and flight dispatchers voted against the pact.

The pact would have been worth \$1m in labour savings to the airline in the next three years.

Pan Am had no comment on its next move. It had originally threatened to sell off many of its aircraft, routes and facilities if it did not get a 10 per cent wage cut. It later offered the wage freeze as a conciliatory measure.

With one of the highest debt loads and oldest fleets in the business, Pan Am reckons it needs \$180m in cost savings a year to survive.

Reduced loss at Dome Petroleum

By Our Financial Staff

DOME PETROLEUM, the Canadian energy group, which is being taken over by Amoco Canada for C\$5.1bn, has reported a reduced second-quarter loss of C\$34m or 10 cents a share, writes Our

Financial Staff.

The company blamed its heavy debt load for the loss, which compared with C\$46m or 24 cents a year earlier. Revenues slipped from C\$350m to C\$317m.

These securities have been sold outside the United States of America and Japan. This announcement appears as a matter of record only.

NEW ISSUE

11th August, 1988

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New Issue

July, 1988

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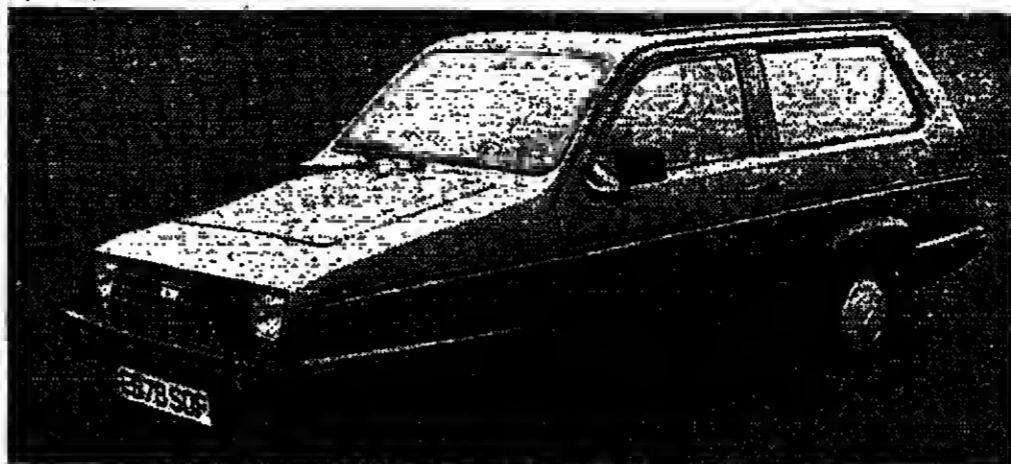
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UK COMPANY NEWS

A three wheel drive into the US  
Richard Tomkins on the slowly changing fortunes of Reliant Motor



The Robin - sales down from a peak 15,000 to under 2,500 a year

Poor Reliant Motor. Nobody seems interested in this USM-quoted company's recent return to profitability after two years of pre-tax losses, the reasons for its slim rights issue, or the significance of last month's tie-up with Universal Motors of the US.

Instead, the question that perpetually craves an answer is this. Why on earth do people go on buying the company's staple product, the Reliant Robin?

The butt of endless jokes, this extraordinary plastic three-wheeler - in fact renamed the Rialto in 1982 - continues to find a market in spite of its unprepossessing looks and relatively high cost.

First developed as the Reliant Regal in 1966, the car used to be the next step towards car ownership for the less-well-off family with motorcycle and sidecar. Its lack of a fourth wheel meant it could (and can) be driven with just a motorcycle licence.

Today, its main selling points are its low running costs and the longevity of its fibreglass body. But small production volumes do not permit economies of scale, and the asking price of £5,145 for the hatchback looks high against £4,598 for a Metro.

One reason why the car still sells is the replacement market. According to Mr Arthur Baines, a Reliant dealer at Barton Goldstar Garages in Whitwick, Leicestershire, a strong sense of loyalty binds Reliant owners to the Robin ethos.

It's hard to pinpoint why, but they just seem to fall in love with them," he says. "A lot of our customers give them names like Bessie or Geri."

Sometimes, too, the car's curiosity value threatens to give it cult status - as when the lifestyle magazine Excel ran a tongue-in-cheek article earlier this year suggesting that the Robin could become an essential yuppie appurtenance.

The market for three-wheelers is nevertheless mature. Reliant's sales have fallen from a peak of 15,000 Robins a year in the early 1970s to less than 2,500 Rialtos a year now, and the workforce at its Tamworth, Staffordshire, factories is down from 2,500 to 950.

Reliant, however, is not just the Rialto. The company also has a tradition of sports car manufacture going back to the 1960s, when it developed the Scimitar GTE - a high-performance estate car which won fame as a favourite of Princess Anne, the Princess Royal.

That model was dropped in 1986 when Reliant decided that volumes did not justify the cost of updating it. Instead, the company launched an open two-seater sports car, the SSL, to fill the gap left by RL's discontinued MG and Triumph sports cars.

Initially, the SSL did badly. Although its performance and handling was praised, its body styling came in for criticism. Further, Reliant - by then turning in pre-tax losses - could not afford heavy outlays on promotion, and sales fell well short of target.

Last month's deal with Universal Motors, a New York-based importer and distributor of specialist cars, has saved the SSL from probable extinction by providing for a body re-styling at Universal's expense and putting the new look model into the North American market.

This should lift sports car production from 250 a year to at least 2,000 when exports to the US begin late next year. Last month's rights issue will help finance the higher production levels.

Significantly, the Universal deal also gives the US company the rights and licences to the car, putting Reliant in the role of manufacturing sub-contractor - though Reliant will market the vehicle in the UK and Europe under licence from Universal.

Reliant's new role under this deal reflects a fundamental change in the company, born out of the recognition that it is simply too small to compete against the industry giants in the face of escalating design and development costs.

As Mr Cyril Burton, managing director, frankly acknowledges: "I don't see Reliant ever going back to the drawing board with a blank sheet of paper to design and develop a motor car, because I can't see us being able to afford it."

Instead, Reliant sees its future as a sub-contractor offering design, engineering and manufacturing services to the automotive industry. An example was last year's contract for the body manufacture and assembly of Ford's limited-edition RS200 rally car.

More recently, Reliant's industrial mouldings division has won contracts to supply van roof extensions for the Ford Transit and complete

body shells for the new London taxi, Metro-Cammell Weymann's Metrocab. These contracts helped turn interim pre-tax losses of £29,000 into a tiny pre-tax profit of £18,000 for the half year to March 1988.

Reliant's shares have shot up in the wake of these developments from a low of 30p (adjusted for rights) in April to 39p now. But then, it has been a volatile stock since the company was demerged onto the USM by Nash Industries (formerly J.F. Nash Securities), the quoted engineering, construction and packaging group.

It is likely to remain so. The company's market value is only £3.5m, and 51 per cent of the shares are held by the family interests of Mr John Nash, the man who recently hit the headlines in a fight for control over the future direction of Nash Industries, in which he retains a 31 per cent stake. (He lost.)

The share price, too, is looking a long way ahead. The results of the drive into the US market will not become apparent until the results for the year to September 1990 are out.

Meanwhile, the company's performance will largely depend on how much work Reliant can win for its plastic mouldings subsidiary. It would like more contracts like a recent one that left the company's reputation for quirkiness undiminished: manufacturing a consignment of riot shields for Peru.

RKF steps into continental Europe

By Clay Harris

RKF GROUP, building services conglomerate, has taken its first step into continental Europe with the acquisition of a 90 per cent holding in Sapragaz, a Belgian-based manufacturer of ceiling-suspended unit heaters.

Although it is paying only £1m 700,000 for the controlling stake in a company which has lost money in the past two years, RKF presented the deal as a major strategic move in the context of the planned creation of a united European Community market in 1992.

The purchase will lift RKF's share of the western European market for unit heaters to 10 per cent and improve continental distribution for its larger Pak-a-Way cabinet heaters, which until now have been only sporadically sold outside the UK.

Sapragaz also brings RKF the advantage of familiarity with differing standards in Belgium, the Netherlands, West Germany, Italy and Switzerland - where many of its industrial and commercial cus-

tomers are located - ahead of the planned unification of specifications throughout the EC.

In 1987, Sapragaz achieved sales of £2.5m as output fell to 2,500 heaters after its UK distributor went into liquidation. RKF's Rossmore Engineering subsidiary plans to order immediately 1,000 additional unit heaters from Sapragaz.

Investment, and the freehold site had room for expansion, he said. The controlling stake was sold by Stiebeletron, a West German company. RKF has a performance-linked option to buy the remaining 10 per cent, held by management and the family of the original owners.

Mr Ian Gould, director for heating and engineering, said that RKF expected to double UK sales of unit heaters to 2,000 within 18 months. Production at Sapragaz's Brussels factory could be raised to 6,000 units without additional investment, and the freehold site had room for expansion, he said.

The controlling stake was sold by Stiebeletron, a West German company. RKF has a performance-linked option to buy the remaining 10 per cent, held by management and the family of the original owners.

FT Share Information Service

The following securities were added to the Share Information Service in Saturday's edition:

- Angley Mining Warrants (Section: Mines-Miscellaneous), BMSS (Buildings), Fitch & Co. Design Consultants (Paper)
- HPC (Chemicals), Hewetson 7% Conv. Red. Pref. shs. (Buildings), Jackson Group (Buildings), Severfield-Reeve (Buildings), Tams (John) (Industrial), Warfield - International (Property)

BOARD MEETINGS

Company	Date
British Airways	Aug 15
British Petroleum	Aug 15
British Telecommunications	Aug 15
British Waterways	Aug 15
British Wool	Aug 15
British Airways	Aug 15
British Petroleum	Aug 15
British Telecommunications	Aug 15
British Waterways	Aug 15
British Wool	Aug 15

**BBA GROUP PLC**

Interim Financial Highlights 1988

	1988 HALF YEAR	1987 HALF YEAR	UP
Sales	£A49.1m	£339.7m	32%
Pre-Tax Profits	£27.8m	£19.5m	42%
Earnings Per Share	9.3p	7.4p	26%
Dividend	1.45p	1.2p	21%

The first half of 1988 showed a continuation of the excellent progress being made by our core business worldwide. We are confident that our efforts will continue to produce the excellent progress that has characterised our recent achievement.

The British based international company with interests in automotive components, friction materials, industrial textiles and engineering products.

FO BOX 20, CLECKHIRETON, WEST YORKSHIRE, BD15 6HF

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange. It does not constitute an invitation to the public to subscribe for or purchase any securities.

**York Trust Group plc**

Incorporated in England under the Companies Act 1948 to 1987 - No. 1142943

This advertisement is issued in connection with the Placing and Open Offer by

**Hambro Bank Limited**

of 16,458,025 Redeemable Cumulative Convertible Preference Shares of 20p each - at 100p per share

The new Convertible Shares have all been conditionally placed with three overseas investors. Of those shares, 16,341,711 are first being made available for subscription by York Trust Ordinary Shareholders under the terms of the Open Offer on the basis of five new Convertible Shares for every sixteen Ordinary Shares held on 15th July, 1988. The Placing and Open Offer are subject, inter alia, to approval by the York Trust Ordinary Shareholders at an Extraordinary General Meeting of the Company to be held on 15th August, 1988. The Company also proposes to issue 16,706,801 new Ordinary Shares in connection with the proposed acquisition by the Company of Kennedy Associates, Inc. Kennedy Associates Real Estate Counsel, Inc. and Barker, Kim & Partners Limited. Following completion of the Placing and Open Offer and the Acquisition the share capital of York Trust Group plc will be:

	Authorised	Issued and fully paid
Ordinary Shares of 10p each	14,198,361	7,100,028
Redeemable Convertible Preference Shares of 10p each	3,900	3,900
Redeemable Cumulative Convertible Preference Shares of 20p each	3,291,739	3,291,739
Deferred Shares of 10p each	5,000	

Application has been made to the Council of The Stock Exchange for the grant of permission to deal in the above-mentioned new Convertible Shares and new Ordinary Shares in the United Kingdom Securities Market. It is emphasised that no application has been made for these shares to be admitted to listing.

Particulars of the Company are available through the EMI United Securities Market Service and copies may be obtained during normal business hours on any weekday (excluding Saturdays) up to and including 17th August, 1988 from:

Hambro Bank Limited, 41 Bishopsgate, London EC2P 2AA.

CL-Alexanders Laing & Cruickshank, Piery House, 7 Copthall Avenue, London EC2P 2AA.

and from The Company Announcements Office, The Stock Exchange, 46 Finsbury Square, London EC2P 2BT.

15th August, 1988.

COMPANY NEWS IN BRIEF

**GARTMORE EUROPEAN** Investment Trusts net asset value per 50p share fell to 347.6p (440.7p) at June 30. Net revenue declined to £109,000 (£198,000). Earnings slipped to 2.55p (3.25p) and it is proposed to raise the final dividend to 2.5p (2.25p).

**HOW GROUP:** The offer for Hansgroess has been declared unconditional with acceptances received totalling 98.3 per cent of the ordinary.

**HYMAN,** Oldham-based polyurethane foam converter and manufacturer, is acquiring Ryburn, a producer of recombinant polyurethane foam and rubber-based products which operates from two sites in Hal-

fax. Consideration will be satisfied by the issue to the vendors of 4m ordinary stock units, equivalent to £1.68m.

**L&C WASTE MANAGEMENT SERVICES** and Wieseck have merged their respective Scottish interests. Each party has a 50 per cent interest in a new company, L&C Waste-Tech, which will be one of the largest industrial and environmental service companies in Scotland.

**MERGE CLEARANCES:** The proposed acquisitions by Alexon Group of Ellis and Goldstein (Holdings), by Tate and Lyle of Staley Continental and by GEC of 35 per cent of the National Nuclear Corpora-

tion will not be referred to the Monopolies and Mergers Commission.

**NEW GUERNSEY Securities:** Net asset value per share totalled 95p at June 30 1988, an improvement of 12.2p over the figure standing at August 20 1987. Revenue before tax amounted to £13,045 (£5,434). Earnings worked through at 5p (2p). Comparisons relate to the period before the formation of the company and its financial year-end.

**FILLAR MERCHANTING,** a member of the RTZ Fillar Group, has acquired Hartman (Contractors' Tools) from John Mowlem for a price in excess of £2m.

**WACE GROUP** has acquired Alpress Holdings, producer of roll self adhesive labels, for a maximum £508,000 dependent on profits. Consideration will be satisfied as to £250,000 cash with the balance via the issue of 78,964 new ordinaries.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except when the forthcoming board meeting (indicated by \*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

Date	Announcement last year	Date	Announcement last year
British Am. Aug 17	Inter 0.7	Stand Char'd. Aug 17	Inter due
BSR Aug 17	Inter 0.47	W H Smith Aug 17	Final due
Jaguar Aug 18	Inter 0.7	Univer Aug 18	Inter due

This advertisement is issued in compliance with the requirements of the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange"). It does not constitute an invitation to any person to subscribe for or purchase any securities in Pleasurama PLC.

**PLEASURAMA PLC**  
(Registered in England No. 228380)

Rights issue of 33,869,130 new ordinary shares of 5p each ("New Ordinary Shares") at 175p per share and 67,838,261 new convertible cumulative redeemable preference shares of £1 each allotted and redeemable at £1 per share entitling holders to an annual fixed preferential dividend of 1.75p (net) per share ("New Convertible Preference Shares").

The Council of The Stock Exchange has admitted the New Ordinary Shares and the New Convertible Preference Shares to the Official List.

Listing Particulars relating to Pleasurama PLC, the New Ordinary Shares and the New Convertible Preference Shares are available in the statistical services of EMI Financial Limited and copies are available for collection during normal business hours on any weekday (Saturdays and public holidays excepted) from the Company Announcements Office, The Stock Exchange, 46 Finsbury Square, London EC2A 1DD up to and including 17th August 1988 and, up to and including 28th August 1988, from the following:

**PLEASURAMA PLC**  
17 Great Cumberland Place  
London W1H 7LA

**County NatWest Limited**  
Drapers Gardens  
12 Throgmorton Avenue  
London EC2P 2ES

**James Capel & Co.**  
6 Devonshire Square  
London EC2M 4LB

15th August 1988

US\$250,000,000  
Floating Rate Subordinated Capital Notes due August 1996

**CITICORP**

Notice is hereby given that the interest payable on the relevant interest Payment Date, August 23, 1988, for the period May 14, 1988 to August 14, 1988 against Coupon No. 16, in respect of U.S.\$50,000 nominal of the Notes will be U.S.\$978.40

August 15, 1988, London  
By Citibank, N.A. (CSSI Dept.), Agent Bank **CITIBANK**

PRICE WATERHOUSE and the FINANCIAL TIMES CONFERENCE ORGANISATION present

**CAPITAL MARKETS WORKSHOP**

12-14 SEPTEMBER - 17-19 OCTOBER  
7-9 NOVEMBER - 7-9 DECEMBER

The risks involved in trading often complex instruments in the capital markets are very clear and the events of last Autumn make the problems even more immediate. In these workshops a panel of Price Waterhouse and banking industry experts examines the risks and explains how they can be managed successfully. Speakers will be drawn from a panel including:

- Jonathan Britton, Finance Director, Swiss Bank Corporation International Ltd
- John Forsyth, Director, Morgan Grenfell & Co Limited
- Graham Sinclair, General Manager, Treasury Normans Bank International plc
- Paul Hambury-Wilkinson, Assistant Manager, Baring Brothers & Co Limited
- Kwaku Lee, Assistant Director, Treasury and Trading Group, Baring Brothers & Co Limited
- Michael Hornestead, Assistant Director, EMI International Limited
- Bob Patten, Director, Capital Markets, Charterhouse Bank Limited
- Richard Gilbey, Managing Director, Capital Markets, Charterhouse Bank Limited

Price Waterhouse  
FINANCIAL TIMES CONFERENCE ORGANISATION

The Financial Times Conference Organisation, 125 Jermyn Street, London SW1Y 4JH Tel: 01-925 2323 Telex: 27347 FICONG G Fax: 01-925 2125

Please send me further details on the Capital Markets Workshops

NAME \_\_\_\_\_  
POSITION \_\_\_\_\_  
COMPANY \_\_\_\_\_  
ADDRESS \_\_\_\_\_  
TEL \_\_\_\_\_ TEL/FX \_\_\_\_\_  
TYPE OF BUSINESS \_\_\_\_\_

**BANK OF GREECE**

US \$250,000,000  
Floating Rate Notes due 1997

Holders of Floating Rate Notes of the above issue are hereby notified that for the interest period from 16th August, 1988 to 16th February, 1989 the following information is relevant:

- Rate of Interest: 9 3/4% per annum
- Interest Amount payable on Interest Payment Date: US\$ 472.78 per US\$ 10,000.00 nominal or US\$ 11,819.44 per US\$ 250,000.00 nominal
- Interest Payment Date: 16th February, 1989

Agent Bank  
**Bank of America International Limited**

This Notice, which is published by Goodman Fielder (U.K.) PLC, does not constitute an offer of securities of Ranks Hovis McDougall PLC or Goodman Fielder (U.K.) PLC or Goodman Fielder Wattle Limited and is for information only.

Notice to the holders of the outstanding **£59,000,000** 4 1/2% per cent. Convertible Bonds due 2003 ("the Bonds") of **Ranks Hovis McDougall PLC** ("RHIM") (Convertible into ordinary shares of 25p each of RHIM)

Holders of the Bonds are hereby notified that Goodman Fielder (U.K.) PLC, a wholly owned subsidiary of Goodman Fielder Wattle Limited (a company incorporated in New South Wales, Australia), has made an offer to acquire the whole of the issued ordinary share capital of RHIM not already owned by Goodman Fielder Wattle Limited or its wholly owned subsidiaries at a price of 465p cash per ordinary share. As an alternative, approximately 20% of the total value of the offer will be available to accepting RHIM ordinary shareholders in the form of Convertible Loan Stock of Goodman Fielder (U.K.) PLC guaranteed by, and exchangeable for ordinary shares of, Goodman Fielder Wattle Limited.

The closing price of RHIM ordinary shares on The Stock Exchange in London on 11 August, 1988 was 447p.

Offer Documents and Listing Particulars were posted on 8th August, 1988 and the offer will remain open for acceptance until 5 p.m. on 29th August, 1988 (or such later time(s) and/or date(s) as Goodman Fielder (U.K.) PLC may decide). The offer extends to any RHIM ordinary shares unconditionally allotted and issued, while the offer remains open for acceptance, upon conversion of the Bonds.

Following the offer becoming or being declared unconditional in all respects, an appropriate offer or proposal will be made by Goodman Fielder (U.K.) PLC to the holders of the Bonds.

Goodman Fielder (U.K.) PLC  
Plumtree Court  
London EC4A 4HT  
Registered No: 2105270

This Notice has been approved by Samuel Montagu & Co. Limited and S.G. Warburg & Co. Ltd. Copies of the Offer Document and Listing Particulars are available from the offices of Samuel Montagu & Co. Limited, 10 Lower Thames Street, London EC3R 6AE.

**FINANCIAL TIMES STOCK INDICES**

	Aug. 12	Aug. 11	Aug. 10	Aug. 9	Aug. 8	Aug. 5	High	1988 Low	Since Compilation
Government Secs.	88.17	87.92	87.98	88.31	88.23	88.35	91.43	86.97	127.4
Fixed Interest	97.42	97.45	97.43	97.91	97.84	97.77	98.67	94.14	105.4
Ordinary	1484.6	1477.6	1482.1	1501.1	1514.7	1512.8	1512.8	1349.0	1926.2
Gold Mines	189.5	188.9	190.4	196.0	196.7	206.4	312.5	195.4	734.7
FT-Act All Share	961.69	957.89	960.57	971.38	978.58	978.32	870.19	1238.57	61.92
FT-SE 100	1843.4	1835.2	1839.9	1862.6	1876.0	1875.9	1879.3	1694.5	243.4

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Table listing various unit trusts such as Abbey Unit Trust, Aikman Unit Trust, and others, with columns for name, manager, and other details.

Table listing unit trusts including Anderson Unit Trust, Anthony Walker Unit Trust, and others, with columns for name, manager, and other details.

Table listing unit trusts including Brown Shipley & Co Ltd, City Financial Services, and others, with columns for name, manager, and other details.

Table listing unit trusts including Dainton Unit Trust, Dainton Unit Trust, and others, with columns for name, manager, and other details.

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JOTTER PAD

CROSSWORD

No. 6,708 Set by TANTALUS

Crossword puzzle grid with numbers indicating starting positions for words.

Crossword puzzle grid with numbers indicating starting positions for words.

- ACROSS
1 Sterne late with adaptation of Shakespeare's play (3,7,4)
Marines in setback due to conditions (5)
Possibly get on with rare source of energy (5)
Tear about - intention is to get clothing (7)
Overturn bus returning to crown (7)
You may get a rise through this (5)
Displaying sensuality, creature is starting to mate (9)
Model example (9)
Some educate their children to collect old money (5)
22 Recounts Laertes' disaster (7)
25 Unlawful for the Italian member to join Capone (7)
27 They kept the - tenor of their way\* (Gray) (9)
28 A religious article relating to bees (5)
29 Notice part if it involves embellishment (14)
DOWN
2 Reduce has time to make wine (5)
3 Refuse a stew that's been concocted (5)

- 4 It may be disturbing for the retired (9)
5 Game falls to start in Irish town (5)
6 Water transport could be drab for us (4-5)
7 Hill dweller about to discover cave (5)
8 Upset about artist and little Mary making mistake (7)
9 Shop with youth leader on this floor (6)
10 Conduct operation (5)
17 Without oriental, cooked rice isn't in - genuine (5)
18 Got coin in disguised state (9)
19 Strike up bargain for vegetable (7)
21 A boy to race shows special ability (6)
23 French river has oil floating about (5)
24 Female wouldn't be on this if married (5)
26 Smallest student gets direction (5)
The solution to last Saturday's prize puzzle will be published with names of winners on Saturday August 27.

GUIDE TO UNIT TRUST PRICING

The data included under the Authorized section of the FT Unit Trust Information pages is being expanded to improve the service to readers and to conform with new legislation. These represent the marketing, administrative and other costs which have to be paid by one of the following:

Table detailing unit trust pricing information, including columns for unit name, price, and other financial details.

Handwritten signature or note at the bottom of the page.

Handwritten text at the top center of the page, possibly a signature or date.

FT UNIT TRUST INFORMATION SERVICE

Main table containing financial data for various unit trusts, including columns for fund names, managers, and performance metrics.

INSURANCES

Table listing insurance companies and their respective unit trusts, including details on policy types and terms.

OTHER UK UNIT TRUSTS

Table listing other UK unit trusts, including fund names and key details.

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Main table containing unit trust information with columns for Name, Price, Bid, Offer, and various fund details. Includes sections for 'MANAGEMENT SERVICES' and 'OFFSHORE AND OVERSEAS'.

OFFSHORE AND OVERSEAS

UK LISTED

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

Main table containing FT Unit Trust Information Service data, listing various unit trusts with columns for Name, Price, Yield, and other financial metrics.

BRITISH FUNDS

Table of British Funds, including sub-sections for 'Shorbs' (Lives up to Five Years), Five to Fifteen Years, and Over Fifteen Years.

BRITISH FUNDS - Contd

Continuation of British Funds table, including sub-sections for Index-Linked and INT. BANK AND O'SEAS GOVT STERLING ISSUES.

FOREIGN BONDS & RAILS

Table of Foreign Bonds & Rails, including sub-sections for AMERICANS and COMMONWEALTH & AFRICAN FUNDS.

OTHER OFFSHORE FUNDS

Table of Other Offshore Funds, listing various international investment vehicles.

Money Market Trust Funds

Table of Money Market Trust Funds, listing specific funds and their details.

Money Market Bank Accounts

Table of Money Market Bank Accounts, listing bank offers and interest rates.

UNIT TRUST NOTES: Detailed text providing information and disclaimers regarding unit trusts.

LONDON SHARE SERVICE

AMERICANS—Contd				BUILDING, TIMBER, ROADS				ELECTRICALS				ENGINEERING—Contd				INDUSTRIALS (Miscel.)—Contd				INDUSTRIALS (Miscel.)—Contd											
Stock	Price	Div	Yield	Stock	Price	Div	Yield	Stock	Price	Div	Yield	Stock	Price	Div	Yield	Stock	Price	Div	Yield	Stock	Price	Div	Yield	Stock	Price	Div	Yield				
510.00	12.00	1.00	8.3%	100.00	10.00	1.00	10.0%	100.00	10.00	1.00	10.0%	100.00	10.00	1.00	10.0%	100.00	10.00	1.00	10.0%	100.00	10.00	1.00	10.0%	100.00	10.00	1.00	10.0%	100.00	10.00	1.00	10.0%

Handwritten signature or stamp at the bottom center of the page.

LONDON SHARE SERVICE

LEISURE - Contd

Table of Leisure companies including Leisure Group, Leisure Leisure, Leisure Leisure, etc.

PAPER, PRINTING, ADVERTISING - Contd

Table of Paper, Printing, Advertising companies including Paper, Printing, Advertising, etc.

TEXTILES - Contd

Table of Textiles companies including Textiles, Textiles, Textiles, etc.

TRUSTS, FINANCE, LAND - Contd

Table of Trusts, Finance, Land companies including Trusts, Finance, Land, etc.

OIL AND GAS - Contd

Table of Oil and Gas companies including Oil and Gas, Oil and Gas, Oil and Gas, etc.

MINES - Contd

Table of Mines companies including Mines, Mines, Mines, etc.

MOTORS, AIRCRAFT TRADES

Table of Motors, Aircraft Trades companies including Motors, Aircraft Trades, etc.

Commercial Vehicles

Table of Commercial Vehicles companies including Commercial Vehicles, etc.

Components

Table of Components companies including Components, etc.

Carriage and Distributors

Table of Carriage and Distributors companies including Carriage and Distributors, etc.

NEWSPAPERS, PUBLISHERS

Table of Newspapers, Publishers companies including Newspapers, Publishers, etc.

PAPER, PRINTING, ADVERTISING

Table of Paper, Printing, Advertising companies including Paper, Printing, Advertising, etc.

SHIPPING

Table of Shipping companies including Shipping, etc.

SHOES AND LEATHER

Table of Shoes and Leather companies including Shoes and Leather, etc.

SOUTH AFRICANS

Table of South Africans companies including South Africans, etc.

TEXTILES

Table of Textiles companies including Textiles, etc.

PROPERTY

Table of Property companies including Property, etc.

TOBACCO

Table of Tobacco companies including Tobacco, etc.

TRUSTS, FINANCE, LAND

Table of Trusts, Finance, Land companies including Trusts, Finance, Land, etc.

Finance, Land, etc

Table of Finance, Land, etc companies including Finance, Land, etc, etc.

Overseas Traders

Table of Overseas Traders companies including Overseas Traders, etc.

PLANTATIONS

Table of Plantations companies including Plantations, etc.

Rubbers, Palm Oil

Table of Rubbers, Palm Oil companies including Rubbers, Palm Oil, etc.

MINES

Table of Mines companies including Mines, etc.

Far West Rand

Table of Far West Rand companies including Far West Rand, etc.

O.F.S.

Table of O.F.S. companies including O.F.S., etc.

Diamond and Platinum

Table of Diamond and Platinum companies including Diamond and Platinum, etc.

Central African

Table of Central African companies including Central African, etc.

Finance

Table of Finance companies including Finance, etc.

OIL AND GAS

Table of Oil and Gas companies including Oil and Gas, etc.

THIRD MARKET

Table of Third Market companies including Third Market, etc.

NOTES

Stock Exchange dealing classifications are indicated to the right of security names...

REGIONAL & IRISH STOCKS

Table of Regional & Irish Stocks companies including Regional & Irish Stocks, etc.

IRISH

Table of Irish companies including Irish, etc.

TRADITIONAL OPTIONS

Table of Traditional Options companies including Traditional Options, etc.

Property

Table of Property companies including Property, etc.

Oils

Table of Oils companies including Oils, etc.

Mines

Table of Mines companies including Mines, etc.

Com. Coll.

Table of Com. Coll. companies including Com. Coll., etc.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

London looks to UK bank lending after US trade data

By Colin Milham

THIS WEEK should contain plenty of news to keep dealers on their toes, adding to the events of last week, and possibly providing further evidence on whether there are economic problems ahead for the US and Britain.

Last week was expected to be dull, but despite the usual holiday season lethargy, managed to create quite a stir, as interest rates climbed and the spectre of inflation reared its ugly head.

US trade figures for June will be published tomorrow, and there are several UK economic statistics this week, including July money supply and bank lending on Thursday.

Forecasts for the US trade deficit range between \$10bn and \$12bn, compared with \$10.5bn in May. A figure below \$10.5bn will probably be regarded as reasonably good, and may be regarded as another excuse to try the dollar.

The US currency stabilised around DM1.92 last week, and retreated back to DM1.88, but this was largely a technical reaction, after a long period when the dollar has advanced at the expense of the D-Mark.

The main worry in the market is that the US trade figures will steadily worsen in the latter part of the year, and it looks to be a question of

whether the dollar will breach DM2.00 in the next month or so, before beginning on another downward course? Once the US trade news is out of the way, attention in London will turn to the UK money supply and bank lending figures.

The main area of concern is bank lending, and fears that July lending by banks and building societies (M4), will exceed the record set in June of \$8.6bn.

The cut off for mortgage related double tax relief on single homes was the beginning of August, and this probably swelled lending in July.

Proud owners of "F" registration vehicles may have also added to the amount of lending during last month. A figure in line with June is likely to be greeted with some relief in the City. Last week's surprising rise in UK bank base rates led to suggestions that the authorities already had a good idea how the figures would turn out, and did not look like what they saw.

Stockbroker Phillips & Drew has revised its forecast of M4 lending up to \$8bn from \$7bn, but this is still on the low side.

James Capel agrees with this figure, but Nomura Research Institute goes for \$8.5bn.

ANZ Merchant Bank, Chase Manhattan, Citicorp, and Kleinwort Benson, and Research, Credit, and Warburg Securities, forecast \$8.5bn.

July unemployment figures will also be announced on Thursday. The market will look at the level of average earnings, for any sign of inflationary pressure.

There is a division of opinion in the City on whether the year-on-year average 12m will remain at 8.5 p.c. or rise to 8.75 p.c.

Friday's UK retail price index for July is also likely to

attract more attention than in the recent past, because of fears about inflation.

The monthly rise is expected to be 0.1 p.c. or 0.2 p.c., taking the annual rate of inflation up to 4.8 p.c. or 4.9 p.c., from 4.6 p.c.

Higher mortgage rates are expected to push year-on-year inflation through 5 p.c. in August, with 6 p.c. seen as a possible peak this year.

Apart from the trade news, events claiming attention in the US this week will be the Republican Convention, beginning in New Orleans today, and tomorrow's meeting of the Federal Open Market Committee.

£ IN NEW YORK

Table with columns: Date, Price, Change. Rows for 4 spot, 1 month, 3 months, 6 months, 12 months.

STERLING INDEX

Table with columns: Date, Price, Change. Rows for 8.30 am, 10.00 am, 11.00 am, 1.00 pm, 3.00 pm, 4.00 pm.

CURRENCY RATES

Table with columns: Currency, Rate, Change. Rows for Sterling, US Dollar, Canadian Dollar, etc.

CURRENCY MOVEMENTS

Table with columns: Currency, Rate, Change. Rows for Sterling, US Dollar, Canadian Dollar, etc.

OTHER CURRENCIES

Table with columns: Currency, Rate, Change. Rows for Australia, Brazil, Hong Kong, etc.

FORWARD RATES AGAINST STERLING

Table with columns: Currency, Rate, Change. Rows for US Dollar, French Fr., Swiss Fr., etc.

MONEY MARKETS

Bundesbank could face difficulties

A RISE in US and UK interest rates last week could cause problems in West Germany, where the Bundesbank may soon be forced into another round of rate increases. Day-to-day funds in Frankfurt have reached 5 p.c., in line with the Lombard emergency borrowing rate. Last week's securities repurchase agreement rate, set at the Bundesbank's tender, was an unchanged 4.25 p.c. There should be no need for another round of intervention eased towards the end of the week as the D-Mark recovered, but if tomorrow's US trade figures provide encouragement

EMS EUROPEAN CURRENCY UNIT RATES

Table with columns: Country, Rate, Change. Rows for Belgium, France, Germany, etc.

POUND SPOT-FORWARD AGAINST THE POUND

Table with columns: Date, Rate, Change. Rows for US, Canada, West Germany, etc.

DOLLAR SPOT-FORWARD AGAINST THE DOLLAR

Table with columns: Date, Rate, Change. Rows for UK, Canada, West Germany, etc.

EURO-CURRENCY INTEREST RATES

Table with columns: Currency, Rate, Change. Rows for Sterling, US Dollar, etc.

EXCHANGE CROSS RATES

Table with columns: Currency, Rate, Change. Rows for DM, Yen, Swiss Fr., etc.

PHILADELPHIA 6% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 8% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 10% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 12% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 15% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 18% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 21% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 24% US OPTIONS

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LEHMAN 27% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 30% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 33% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 36% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 39% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 42% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 45% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 48% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 51% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 54% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 57% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 60% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 63% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 66% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 69% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 72% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 75% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 78% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 81% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LEHMAN 84% US OPTIONS

Table with columns: Strike, Call, Put, Change. Rows for 1.50, 1.75, 2.00, etc.

LONDON RECENT ISSUES

EQUITIES

Table with columns: Index, Price, Change. Rows for FTSE 100, FTSE 250, etc.

FIXED INTEREST STOCKS

Table with columns: Index, Price, Change. Rows for Government, Corporate, etc.

RIGHTS OFFERS

Table with columns: Index, Price, Change. Rows for Various companies.

EUROPEAN OPTIONS EXCHANGE

Table with columns: Index, Price, Change. Rows for Various European options.

BASE LENDING RATES

Table with columns: Bank, Rate, Change. Rows for ANZ, Citicorp, etc.

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS

Table with columns: Index, Price, Change. Rows for Australia, Austria, Canada, etc.

THE WORLD INDEX (2466)

Table with columns: Index, Price, Change. Rows for World Index, etc.

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WORLD STOCK MARKETS

Table of world stock markets including sections for Australia, Canada, France, Germany, Italy, Japan, and Switzerland. Each section lists various stocks with their high, low, and closing prices.

CANADA

Table of Canadian stock markets, including Toronto and Montreal closing prices for August 12. Lists various stocks and their market performance.

Table of Japanese stock markets, listing various companies and their stock prices.

OVER-THE-COUNTER

Table of over-the-counter market data, including Nasdaq national market and 2pm prices for August 12.

Table of New York stock markets, including Dow Jones and NYSE Composite indices, and a list of active stocks.

Advertisement for 'Travelling on Business in Italy?' featuring Diana Majestic, Duca di Milano, Hotel Excelsior Gallia, Hilton Hotel, Hotel Michelangelo, Hotel Palace, and Hotel Principe di Savoia. Includes an image of a passport.

Small text at the bottom of the page providing additional market information and disclaimers.



NYSE COMPOSITE PRICES

Table of NYSE Composite Prices listing various stocks with columns for stock name, price, and change.

AMEX COMPOSITE PRICES

Table of AMEX Composite Prices listing various stocks with columns for stock name, price, and change.

OVER-THE-COUNTER

Table of Over-the-Counter market prices listing various stocks with columns for stock name, price, and change.

Advertisement for Financial Times delivery in Belgium, listing postal districts and contact information.

Advertisement for Financial Times delivery in Belgium, listing postal districts and contact information.

The Business Column

Stoking up the debate on brands

Twenty years ago a strapped-for-cash Swedish engineering group sold the US rights to one of its better-known brand names to a cumbersome US conglomerate.

Both companies have since prospered. Electrolux is now the biggest appliance maker in the world and Sara Lee, called Consolidated Foods at the time of the deal, is among the cream of North American food groups.

Last year Sara Lee decided that TV dinners and a vacuum cleaner business belonged together and sold its extremely profitable Electrolux operation to a management team. But canny John Bryan, Sara Lee's president, hung on to the Electrolux brand name.

The Swedes tried vainly to buy it back. And there things stand: Bryan with a good hand and steady royalties, while Anders Scharp of Electrolux wonders how he can implement his programme of making a global brand of Electrolux while the name is held hostage in one of his main target markets.

Should the Cadbury chocolate business remain independent long enough to fulfil its new ambitions in the European market (already overrun by Nestlé, Mars, Ferrero and Jacobs Suchard) it could find itself like the Swedes, rueing this month's deal in which it surrendered its US business to Hershey.

Contrast this move with Nestlé, which, following the \$3bn purchase of Carnation three years ago, is spending extra millions on buying back the licenses and manufacturing and marketing rights which had been sold or leased off around the world.

This raises interesting questions over the Swiss group's attitude to the brands belonging to its latest acquisition, Rowntree, which are run in the US from the same Hershey stable as Cadbury's.

In the longer term, Cadbury's tactical switch could come to be viewed as expediency, even profligacy.

So, too, could the recent announcement from the West German sports goods company, Puma, that it had sacked its walking billboards Boris Becker and Diego Maradona.

Puma has lost more than \$20m in the past two years and in those same two years Becker has failed to win back his Wimbledon title.

Becker and Maradona are unlikely to have trouble finding other sponsors. But where will Puma, in an industry in which brand differentiation and the maintenance of margin premiums depend largely upon personality promotion, find adequate, affordable substitutes? Retrenchment is one thing, digging one's own grave quite another.

These latest moves should help fuel the debate over brands for some time to come. It will certainly not die down as branded goods companies jockey for takeovers and the concepts of a unified European, and even a global, market-place start to gel.

Reckitt and Colman may have shelved its plan to include the value of brands such as Harpic and Steradent in its balance sheet, but GrandMet and others are still assessing similar projects. If a company of any substance does follow this track, others will probably follow.

Imperial Tobacco and United Biscuits may also have started a trend recently when each of them discontinued about 20 lesser names, the better to tend their better-known brands. Bulwark Cut Ping and Country Cookies are no more.

Meanwhile, the world awaits conclusions. All that has emerged so far is that attractive brands command attractive prices. In today's confused conditions it is doubtful whether any company can arrive at a proper valuation of its brands. All that matters in the end is that the aggressors pitch a price which is "right" for shareholders in the target. It is impossible to say whether it is equally "right" for the shareholders of the buying company.

Christopher Parkes

THE MONDAY INTERVIEW

Statesman of the Troubles

Kieran Cooke meets John Hume, leader of Northern Ireland's SDLP

FOR A MAN who has lived in the midst of one of Northern Ireland's worst trouble spots over the last 20 years, John Hume is a remarkably relaxed individual.

His home in the heart of Londonderry's Bogside has been attacked nine times in the past five years. Last year, a group described by him as "headbangers" threw fire-bombs. Two cars have been burnt out. Yet, unlike other Northern Ireland politicians, Mr Hume has no bodyguard, nor does he carry a gun. "I would be wrong to be armed and at the same time be preaching non-violence. Any policeman that was guarding me would be murdered. I'm not worth that."

The last months have seen a particularly gruesome catalogue of murder and mayhem in Northern Ireland, including the bombing at Enniskillen in which 11 civilians were killed. In March, after the murder of two off-duty British soldiers at an IRA funeral, television pictures of the killing were flashed around the world. Yet despite the rising death toll, John Hume is more optimistic than ever about Northern Ireland's future. The 1985 Anglo-Irish agreement between the London and Dublin Governments is fundamental to a new climate of change in the province, he says.

"The agreement has made people sit up and face reality. It is the most significant development since 1820 (when the British set up a separate Parliament in Belfast). To Unionists it signifies that the ascendancy and their control over all aspects of the North's affairs is finally over. To nationalists, both north and south of the Irish border, it brings home the message that if Irish unity is to be established, the Unionists have to be accommodated."

The Agreement has also acted as a vital safety valve. "This year we've had the Stalker business, the events in Gibraltar, the cemetery shootings - a series of incidents which in the past would have led to riots. The level of street activity is nothing like 10 years ago. Instead, people are now standing back and saying 'What will Dublin do? What will London do?'"

Mr Hume has been called the statesman of Northern

Ireland's Troubles. "I believe there is now a deep feeling on both sides of the community that the problems be settled. The accommodation of difference is the only basis for future peace and stability in our society."

"Central to a solution is the relationship between the Unionists and the rest of Ireland. The Unionists have to talk to Dublin. If they did that it would all be over. It's so simple."

Mr Hume has been called naïve and branded a political opportunist. But many would admit that he has emerged from 20 years of "the Troubles" as Northern Ireland's premier politician.

PERSONAL FILE

1937 Born Londonderry. Education: St Patrick's College, Maynooth

1960 Joint founder Derry Credit Union

1967 Joint founder, Derry Housing Association

1968 Vice Chairman, Derry Citizens Action Committee

1969 Elected as independent for Foyle constituency to Stormont Assembly

1970 Founder member SDLP

1973 Elected Deputy Leader SDLP

1979 Elected to European Parliament

1979 Elected leader SDLP

1983 Elected Westminster MP for Foyle

Mr Hume is a Catholic with a small "c", emmeshed in the political and social fabric of his native Londonderry. But he also has an international perspective. "The Irish are too incestuous, too inward looking. We cannot remain just sitting here contemplating our navels. The world is passing us by."

Mr Hume is one of Britain's best known MPs abroad. Since the late 1960s he has built up strong contacts with politicians in the US. At the recent Democratic Convention in Atlanta he could be seen making introductions for his less worldly Westminster colleagues. He is an old and close friend of Mr Dukakis. A former French teacher and a Francophile, Mr Hume is a familiar figure in France and has just

finished a series on Northern Ireland for French television.

Elected to the European Parliament in 1979, Mr Hume became one of its most active members. He feels the Single European Market in 1992 will have a dramatic impact on Ireland, both north and south. "Everything will change. What about the border then? There will have to be harmonisation of both parts of the island. So many of the divisions will have to go. Full integration into Europe will inevitably broaden and dilute the Northern Ireland problem."

Mr Hume remains the quintessential Irish politician. He revels in a chat and "the crack" (a joke or story, usually of considerable duration). He enjoys a drink. His family is central to his life. His wife Pat runs his office in Londonderry and organises what on the surface appears to be the rather disorganised life of her husband.

John Hume is the oldest of seven children, born in the poor north side of Londonderry. Elected to the Northern Ireland Assembly in 1969 and a founder member of the Social, Democratic and Labour Party in 1970, John Hume was at the forefront of events which quickly took on national and international dimensions.

He narrowly escaped death at a demonstration in Londonderry in 1971. A year later he tried to calm people after the events of "Bloody Sunday" when 13 of his constituents were shot dead by British paratroopers. Despite all the killings of the last 20 years, Mr Hume feels there have been many positive achievements. "Derry would not be recognised compared to 20 years ago. The housing situation has been transformed. The old

In the mid-1960s Mr Hume set up a firm which smoked and marketed salmon from Lough Foyle near Londonderry. Mr Hume still boasts that the salmon waters around his native city are the richest in Western Europe. He once surprised a group of European MPs at a Brussels banquet by placing four fresh



'It would be wrong to be armed and at the same time preach non-violence'

Northern Ireland salmon on the table.

Londonderry was the setting for the start of the present "Troubles" in Northern Ireland. Civil Rights marches in the late 1960s, inspired in part by similar events in the US, eventually led to serious confrontations with the authorities. Catholics vented their anger about job and housing discrimination. Elected to the Northern Ireland Assembly in 1969 and a founder member of the Social, Democratic and Labour Party in 1970, John Hume was at the forefront of events which quickly took on national and international dimensions.

He narrowly escaped death at a demonstration in Londonderry in 1971. A year later he tried to calm people after the events of "Bloody Sunday" when 13 of his constituents were shot dead by British paratroopers. Despite all the killings of the last 20 years, Mr Hume feels there have been many positive achievements. "Derry would not be recognised compared to 20 years ago. The housing situation has been transformed. The old

political gerrymandering, used by the Unionists to cling to power, is gone. The one thing that is still there is unemployment." Londonderry, which is 70 per cent Catholic, has an unemployment rate of 30 per cent. In parts of the Bogside more than 50 per cent are out of work.

Mr Hume's constituency has the highest unemployment rate in the UK. "Violence has done tremendous damage on both sides of the border. We calculate that it has cost the two economies £1bn. In Northern Ireland alone 39,000 jobs have been lost."

Mr Hume, as leader of SDLP, has been bitterly criticised, particularly by Unionist politicians, for his recent talks with Sinn Féin, the IRA's political wing. "The talks will continue. We cannot just remain in the trenches. I want to exhaust all possibilities. We are not engaged in negotiations with them about ceasefires or anything else, only discussions." Mr Hume feels the IRA are symptomatic of an Irish inability to come to terms with the past. "We have been handed down the simplicities of the

past, among them the idea of dying for Ireland, not living for it. That's translated very quickly into killing for Ireland. The IRA are theologians, not politicians. They see themselves as keepers of the Holy Grail of Irish freedom. I say to them that when you start killing people you kill your country. If the IRA continues its campaign it will go down in history as the group that made Irish unity impossible."

More than 50 per cent of those killed in Northern Ireland in the past 20 years have been civilians, says Mr Hume. Of those, more than 60 per cent were Catholics. "The real victims of violence are our own people. Sinn Féin and the IRA say the British troops must leave. That is the road to chaos. I say that the people of Ireland must be united first. Then anything is possible."

The Unionists, says Mr Hume, have never effectively stated their case. "They do have a very definite case. Yet they have never articulated it properly. They have always clung to the status quo and, up to the Anglo-Irish agreement, London always gave in to

Unionist intransigence. It was like the old Unionist slogan: 'To hell with the future, long live the past. May God in his mercy be kind to Belfast.'"

While Mr Hume has often been deeply critical of Mrs Thatcher's policies in Northern Ireland, particularly over the hunger strikes in the early 1980s, he feels only a strong Conservative Prime Minister could have gone ahead with the Anglo-Irish Agreement.

"She was able to keep her own troops in order. If the Tories had been in opposition they would never have allowed such an accommodation to take place." Mr Hume is very fond of the word accommodation. He also uses the phrase "a healing process" a great deal.

"Both sides in Ireland have to recognise the differences that exist and come to terms with them," he says. "Unity in diversity is the key to the whole Irish question. It will take time. We are in for a long, slow plod, not any fancy packages or supposed miracle solutions. Northern Ireland is not like that."

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